

In July 1931

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE
BRITISH COMMONWEALTH

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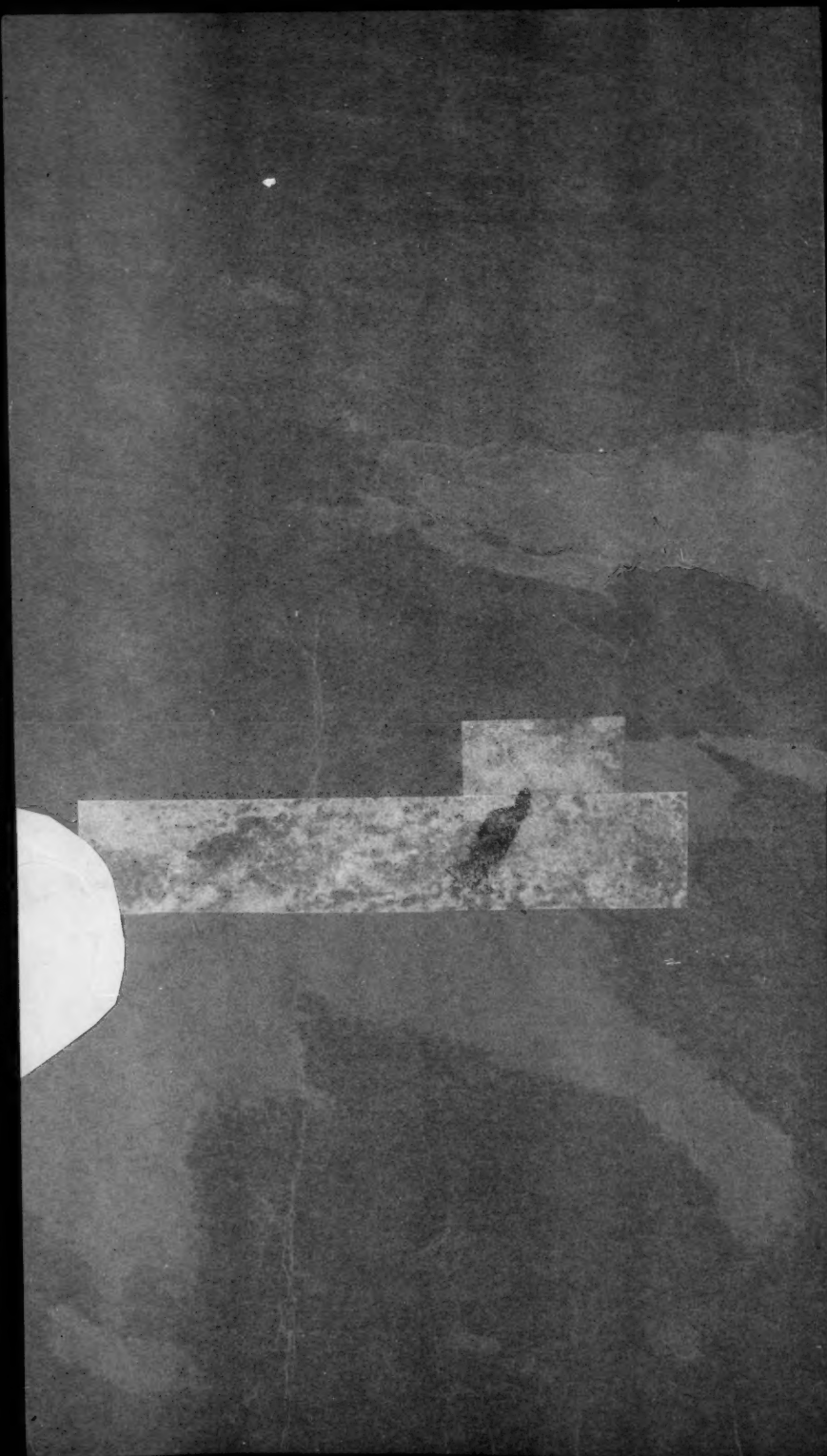
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THE EMPIRE, THE LEAGUE, AND SECURITY

IT is evident that we are rapidly approaching the time when very far-reaching decisions will have to be taken by the nations of the British Commonwealth in the realm of international policy. The next Imperial Conference may prove to be the most momentous that has taken place since 1911, when for the first time the Dominions were admitted to the secrets of the already dangerous pre-war situation. For two major issues now confront us. The first is whether the collective system for dealing with international problems, represented by the League of Nations and the Kellogg Pact, on which the Empire has mainly based its foreign policy and its sense of security since 1918, can be restored so as to be an effective instrument for maintaining international liberty, prosperity and peace. The second is whether, in the present state of the world, our naval, military and air preparations are adequate either for making effective the collective system, or, if that system breaks down, for the defence of the members of the British Commonwealth or of the free institutions upon which it rests.

I. THE COLLECTIVE SYSTEM

DESPITE all that has happened in the last few years, we stand unrepentantly behind the League or collective system of dealing with international affairs. In its present form it may seem to be somewhat disabled. But the alternative is to drift back to the international anarchy,

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the competitive armaments, and the military alliance system that inevitably both undermines liberty and ends in world war. It may well be that the present reaction from the collective system may prove to be valuable in the end. It takes a long time to educate popular majorities, whether they support democratic governments or dictatorships. It may be that only when they have looked back into the abyss of reaction, terror, dictatorship, poverty and war, which a return to anarchy implies, the nations, or at least the liberal nations, will realise that they must make the collective system a success or lose the free basis of their civilisation.

The weakness of the League hitherto has been twofold. In the first place the two largest world Powers, the United States and Russia, never joined it, and now two other first-class Powers, Japan and Germany, have left it. No collective system can ensure either peace or security so long as four world Powers remain outside. In the second place, even in the heyday of the League, none of its more important members really relied upon it for their own security or took seriously their obligations to ensure the security of others. The British Commonwealth relied primarily upon its navy. So did Japan. Italy relied upon her army and her alpine frontier. And France relied upon her army and her military alliances with Poland and the Little Entente.

The League, indeed, has hitherto been in great measure but a project of a League. It has done a great deal to make nations understand the world and one another's difficulties. It has proved a focus for world opinion. It has given the small nations a status and an influence they never had before. It has solved successfully a large number of difficult international problems. It has developed in high degree the technique of international conference. But it has never yet given security to its members, either by producing universal disarmament or by creating effective guarantees against aggression, and until it succeeds in doing these things it will never be more than

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the project of what the League of Nations was intended to be.

Signor Mussolini has declared that if the League is to survive it must be reformed. That the Covenant may require some modification is possible. For instance, it would clearly be wise to separate the Covenant from the Treaty of Versailles. It ought, like a political constitution, to be outside and above all treaties or ordinary legislation. Signor Mussolini suggests that the great Powers should have a special position, on the ground that it is they who in the last resort make the serious wars or maintain peace. There is something to be said for this view. We are inclined to think that the original composition of the Council was sounder than its present composition, and that the smaller Powers over-played their hand when they insisted, in 1926, on being given more seats. There may, too, be something to be said for bringing the text of certain articles, such as Article 10, into line with what has become the agreed practice of the League in the light of experience.

But when all is said and done, these are quite minor matters. Any league system that is to fulfil the ideals of 1918 must have two primary characteristics: it must be universal, and its pacific procedure must be made effective through the existence of trustworthy sanctions against those who take the law into their own hands by going to war. Unless it has these characteristics it cannot do its work. One or two great Powers outside its membership can paralyse its capacity to give security in certain parts of the world, just as the abstention of the United States, by immobilising the British navy, has paralysed the effectiveness of Article 16 as a security for European peace. And unless the league can build up some system of mutual guarantee against aggression which nations can trust, disarmament will be impossible. Every nation will be forced to rely for security upon its own armaments, and, if these do not suffice, on alliances with other menaced Powers, with the inevitable result that the world will be divided

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into rival groups instead of being united in a single organisation seeking to give security, justice and peace on equal terms to all. On the other hand, if the league can give security to its members, the fear of war will abate, national animosities will subside, and the question of revision of treaties and frontiers, which is almost impossible in the present state of world tension, will become manageable.

But there is another aspect of any effective league that cannot be left out of account—the economic side. In the original scheme of the League it was intended that it should lessen impediments to, and promote, international trade. It is probably true to say that while the abstention of the United States has been the main reason for the failure of the League, the second reason has been the unemployment and economic distress caused by unrestrained economic nationalism, reparations and war debts. Nations have so dislocated the world balance between supply and demand by obstructions to commerce and by excessive demands for debt and reparation payments, regardless of the effect on themselves, their neighbours or the world as a whole, that economic suffering has provoked domestic revolutions and dictatorships, and has made international political co-operation and good will almost impossible. The first condition of a sound world order, as of order within a nation, is security against those who try to get their way by violence. The second is security against ruin recklessly wrought by economic war. It ought to be an element of any true league system that, just as armaments should be limited by agreement, tariffs and other obstructions to trade should be the result of international negotiation and not be altered unilaterally, to the detriment of others, except after prior conference with those affected. Such a system is quite compatible with a large degree of national control over internal development and even of self-sufficiency, but it would mean that the external effects of tariffs and other restrictions would have to be considered at the same time as their internal effects, and that there

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would be an end of the present ruthless and reckless international economic warfare.

II. SECURITY TO-DAY

THESE considerations show how far removed the League as it exists to-day is from being an effective instrument for peace, security and prosperity. How far are we likely to make it into such a true collective system at the present time? The answer will depend mainly upon the outcome of the present disarmament negotiations. If a treaty can be signed that stabilises, say for ten years, the armaments of all nations at a defensive level that gives to each of them reasonable power to defend itself against aggression, and makes the chances of sudden and successful aggression extremely small, and if the signatories bind themselves to take effective sanctions against a violator of such a treaty, the foundation will have been laid upon which the other sides of a true collective system can be confidently developed during those ten years. We therefore in general support the proposals put forward by the British Government on January 31. They are not ideal proposals. The ideal basis would have been the abandonment by all nations of the "offensive" weapons forbidden to Germany under the Treaty of Versailles. A universal treaty on such a basis would have implied a real "change of heart" among the nations and a real possibility of a new and better international order. It would have freed the world from the fear of militarist aggression and have been an earnest of the nations' conviction that they can solve their difficulties and revise their treaties by the pacific procedure of the League, that is by conference, arbitration and judicial process. At the same time it would have made far smaller both the risk and the burden of the obligation to take "sanctions" against an aggressor.

But it seems quite clear that such an ideal consummation

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is now out of reach. The first condition of any progress is an armament agreement acceptable both to France and to Germany. There will be no basis for reconstruction in Europe until Germany is given "equality," that is, until she is no longer by treaty rendered defenceless against her neighbours. The British proposal is an attempt to find the *via media* between "equality," which is the irreducible minimum of the German demand, and "security" against a Power potentially stronger than herself, by reason both of its population and of its industrial resources, which is the irreducible minimum of the French demand. It gives to Germany "defensive equality" at an early date and it endeavours to give to France security not only by allowing her a certain advantage in armaments, but also by making any infraction of the disarmament convention, once it is established by a permanent supervisory Commission, a matter for immediate international conference by all the signatories, and by requiring the return of Germany to membership of the League as one of the conditions of the ultimate convention. We do not propose to discuss here the technical details. The central issue is whether, while giving to Germany the "equality" to which she is inherently entitled, the nations, and especially the great Powers, are willing to make security a reality by binding themselves to take action that will be effective against a violator of the disarmament convention or an aggressor. If so, we shall begin to move forward again towards international peace and a true collective world system. If not, we shall inevitably move closer to the system of finding security by military groupings and alliances, which must weaken the collective system even on the diplomatic side and which in the end almost inevitably spells war.

There are many difficulties in the way of an effective system of international sanctions against an aggressor or a disarmament treaty violator. How are you to define the aggressor? Who decides when the *casus fœderis* has arisen? What happens if there is an acute difference of

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opinion or if some signatories refuse to come into line? What is the most effective form of international pressure or "sanctions"? Unless it is so overwhelming as to make compliance certain it may only precipitate world war. Can any form of economic or financial sanctions be effective unless the whole of the rest of the world combines to sever financial and economic contracts with the aggressors? These problems, also, we do not propose to discuss in this article. We would only say that the root problem is not technical but how to create the will among the Powers to act simultaneously and effectively against an aggressor. If the great Powers really mean business, if, instead of relying upon their own armaments alone or on military alliances with one or two Powers, they decide that their own security can best be attained by resolute combination to prevent resort to war, they will be able to find the means appropriate to the circumstances of each particular case. But if that will is not there neither Article 16 nor any other similar assurances will work, even if the smaller Powers and one or two great Powers are willing to do their part. The value of "sanctions" depends upon their being really collective. It is the fact that all other nations combine against an aggressor that makes them overwhelming and so preventive of war. For one or two nations to be willing to take "sanctions" by themselves gives no real "security" and probably only spells war.

What does this mean so far as the British Commonwealth is concerned? The nations of the Commonwealth are already wholly pledged to the League system and the Kellogg Pact. They are parties to almost all the treaties that provide for pacific procedure and arbitration. They are committed to Article 16 of the Covenant. We consider that they should now be willing to enter into whatever system of collective sanctions against an aggressor may be necessary to make a disarmament treaty possible or pacific procedure effective, provided, in the first place, that the United States is also a party

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to such a system, and provided, in the second place, that so far as Europe is concerned both Russia and Germany, as well as France and Italy and the smaller Powers, are also parties to it. For the issue before us is not between collective sanctions and glorious disentanglement and isolation. It is between an obligation that is the beginning of a move towards an ordered, free, and peaceful world, and an entanglement in a system of high armaments and alliances or *ententes*, in which every nation is liable to be dragged into war, not in order to defend world law and order, but because one of its allies in self-defence has been forced into war, or because its own vital interest or some strategic position, vital to its own security, is threatened by a war in which other Powers alone are at first engaged. But we are against their entering into any such obligation unless the United States and the other great Powers are also committed, for reasons given in the preceding paragraph.

We do not believe in any of the proposals for international armies, or police forces, or internationalised aviation. The only body that can raise, pay and give effective orders to such forces is a government, with powers to tax and make laws for its citizens. No occasionally meeting council representing a number of sovereign States, with no revenues under its own control, could either recruit, maintain or use effectively forces capable of acting decisively and successfully against any of the larger nation States of to-day, even though it had limited its armaments to a reasonable level. Such ideas are a mirage. If international sanctions are to be effective they must be carried out by the governments of the nations concerned, who alone can wield the power or call upon their nationals to make the sacrifices necessary to make such sanctions effective. Whatever the far future may bring forth, the collective system can only be made effective to-day by the loyal and prompt co-operation of the nation States of which the League and Kellogg Pact system are composed.

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III. THE PROBLEM BEFORE THE COMMONWEALTH

THERE are thus two problems of the first magnitude looming up before the British Commonwealth. The first is whether its members are sufficiently earnest supporters of the League-Kellogg Pact system to undertake to enforce the sanctions against an aggressor, or a violator of a disarmament convention, without which the collective system cannot ensure either peace or security, provided the United States and the other major Powers are willing to undertake similar obligations. We think that the nations of the British Commonwealth, being already committed by Article 16 of the Covenant, are so resolved. If there is any doubt upon the subject the sooner an Imperial Conference is summoned the better; for it is now the vital issue on which depend the hopes of disarmament and of putting upon an effective basis that collective system which it has been the first principle of Empire policy since 1918 both to promote and to rely upon. It is essential that we should know exactly what obligations we are now under or are willing to undertake.

But there is a second question that may also be presented at an early date. Even if the British Commonwealth is willing to play its part, the other Powers whose co-operation is necessary to make international sanctions effective may not be willing to play their part. From our point of view the most important of these nations is the United States. As experience since 1918 has shown, without her co-operation, or at least toleration, the use of the British navy to give effect to the economic sanctions provided for under Article 16 of the Covenant is impracticable. Yet there is no sign, as yet, that the United States is willing to assume any kind of obligation which, under any circumstances, might involve her in hostilities in Europe or Asia. The furthest her official

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spokesmen have ever gone was the declaration of Mr. Stimson, President Hoover's Secretary of State, in August, 1932, and the declaration made by Mr. Norman Davis on behalf of President Roosevelt at the Disarmament Conference in May, 1933. Mr. Stimson*, in effect, said that it would be impossible for the United States to claim neutral rights in the case of a violation of the Kellogg Pact. Mr. Norman Davis, turning this general thesis into a formal offer, stated that, under a finally agreed disarmament convention, the United States would be willing to confer with other nations with a view to the maintenance of peace if the Kellogg Pact were violated. Further, under such circumstances she would, he said, refrain from any action that would tend to defeat any collective action that other States might take against an aggressor, if she were in agreement with their designation of that aggressor. The utmost, therefore, that both Republican and Democratic Administrations have seen their way to propose is that if a disarmament convention is signed the United States will not claim her old neutral rights against a combination of other States seeking to take sanctions against a violator of the Kellogg Pact, if she and they are agreed as to the aggressor. Yet that is an advance, and if a disarmament treaty were signed and all the great Powers except the United States really committed themselves to use sanctions against a violator of the treaty or of the Kellogg Pact, and if the United States bound herself as proposed by President Roosevelt, we should be in favour of the British Commonwealth's undertaking the full obligation of taking sanctions against an aggressor. We cannot say, however, that we think this is very likely at the present time, especially in the light of the recent Franco-German exchange of Notes. We have certainly to face the possibility that the project may fail. What then?

Mr. Walter Lippmann, perhaps the most authoritative interpreter of American policy, in an Armistice Day address

* See THE ROUND TABLE, No. 86, September 1932, p. 701.

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made some extremely interesting comments on America's present-day attitude to international problems.

There are no differences of opinion on the fundamental decision not to employ our armed forces in Europe or in Asia. No service can be rendered to the cause of peace by disguising or qualifying the singleness of American purpose in this matter. Were we in any way to fail to make this clear we should be practising a cruel deception which could only aggravate the situation abroad.

Mr. Lippmann then went on to discuss the difficulties that now confront the United States in maintaining her neutrality if a new war breaks out. "In fact, we learned during the war that in a world war neutrality for a great trading nation is eventually impossible." If, then, the United States is determined not to participate in a war in Europe or Asia, yet cannot maintain her neutrality in a world war, and "since we are not prepared to throw our whole might into the scales to prevent war," what is the practical policy for her to adopt? It is, in Mr. Lippmann's opinion, to try to localise these European and Asiatic wars and to prevent them from becoming world wars. When, then, does a local war become a world war? When, says Mr. Lippmann, the British Commonwealth of Nations is engaged. "With Britain fighting, we can be neutral only by yielding our rights or by challenging British sea power; with Britain neutral, the overwhelming weight of the world's naval armaments and of the world's seaborne commerce are on the side of neutral as opposed to belligerent rights." Mr. Lippmann then concludes:

Anyone who looks these things clearly in the face will conclude that by the circumstances of geography, by the destiny of history, and by the deep intermingling of our interests, it has become an absolute necessity both for Britain and America that they have the same policy in the event of another war. It is not necessary to have a treaty. It is necessary only to understand the facts. Thus it is only by understanding Anglo-American relations, and how in the supreme test our interests and the interests of the other English-speaking peoples are identical, that it is possible to have an effective policy of non-entanglement in another war,

or for that matter to avoid an Anglo-American war.

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There is deep significance in these words. We, in the British Commonwealth, might put the thesis somewhat differently. But what it amounts to in practice is this: Assuming the breakdown of an effective collective security against war, because either the United States or other Powers are unwilling to play the full part necessary to its success, what is the alternative? The alternative is an Anglo-American understanding to the effect that a threat of war anywhere is, under the Kellogg Pact, a common concern to both; that they retain a free hand to deal with such a situation unrestrained by any military commitments and entanglements with other Powers; that if there is to be intervention to bring a local war to an end, or for any other reason, they will use their sea power together; and that pending such joint action they will jointly sustain neutral rights against the belligerents. Such a thesis clearly raises difficulties for Great Britain and the Dominions under the Covenant, and for Great Britain under the Locarno treaties. But there are probably even greater difficulties and dangers for both Great Britain and the Dominions if they have not a clear understanding with the United States as to the use of sea power in a world in which there is once more likelihood of large-scale war in Europe or Asia. For instance, a policy involving entanglements in Europe without an understanding with the United States is a policy that may embroil us in war not only with Europe but with the United States also. The Anglo-American issue is one that will require earnest consideration during the next few months no less than our relations to Europe. There were many who said in 1920 that the League could succeed only if it had the wholehearted support of the United States. Since 1920 we have attempted to regularise our relations with Europe and Asia while leaving our relations with the United States undefined. Should the present attempt to restore the universal collective system break down, our primary duty—if the most disastrous of all wars, an Anglo-American war, is to be avoided, if we are to avoid becoming

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part of a European balance of power, if there is to be any centre of gravity in the world at all—will be to regularise the relations between the British Commonwealth and the United States. For the world *pax* that was maintained by Great Britain from 1815 to 1914 can no longer be sustained by Great Britain alone, but only by the British Commonwealth and the United States in co-operation.

This ultimate question of Anglo-American relations may, then, come rapidly to the front if an effective system of universal sanctions fails to be created behind a disarmament convention in the next few months. It will in any case have to be faced in connection with the Naval Conference next year.

But an even more immediate issue will be forced upon us in the same eventuality. The Disarmament Conference itself may end not, perhaps, in a renewed competition in armaments but in a considerably heightened level of armaments all round. Indeed re-armament is going on apace almost everywhere to-day. Certain great Powers, too, have rejected not only the machinery of the League but even the general philosophy of international co-operation that lies behind it, and have apparently embraced militarist and imperialist ideals. Under these conditions, are the mutual obligations and the defence preparations of the members of the Commonwealth itself adequate, either to enable it to play its part in what may be left for the time being of the League system or in the last resort to defend the various members and their free institutions within the Empire itself? For it is quite certain that weakness never maintained either peace or free institutions.

These questions have never been seriously raised since 1918, for the assumption has been that the League system, backed by the British navy, was sufficient to protect the Commonwealth from any visible menace. That is no longer true. Nobody can any longer say with assurance that no major war is in sight for ten years. Yet the problem raises very far-reaching issues. In the probable

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state of world armaments in 1935 or 1936, what should our naval strength be? What type and distribution of vessels are required under modern conditions? What part should be played by the new air arm? There are those who say that despite our present expenditure on armaments we are not getting anything like proper value in security for the outlay because we are only the fifth air Power and because our naval equipment is not suited to post-war conditions. What should be the relative rôles of Great Britain and the Dominions, on the sea and in the air? Is it possible to combine a purely Commonwealth defensive system with a system of oceanic security such as was outlined in the last issue of *THE ROUND TABLE*?* These are vital issues and they may become urgent issues also.

IV. THE NEED FOR AN IMPERIAL CONFERENCE

WE have said enough to show what momentous questions lie behind the negotiations for a disarmament convention now in progress. They may lead to a reconstruction and strengthening of the collective system. They may force a reconsideration of our relations with the United States and of our own armament standards. Our sole conclusion to-day is that in any event the decisions to be taken must be Empire decisions, whether the problem to be considered is the establishment of a strengthened system of security based on sanctions or whether it is the situation that will arise from a breakdown in the present negotiations. As soon as the outcome becomes clear, an Imperial Conference should be held to consider the situation, including the policy to be pursued at the Naval Conference of 1935. It is the main purpose of this article to provoke discussion about the issues that will inevitably face such a conference, so that when it assembles public opinion will be alive to them.

* See *THE ROUND TABLE*, No. 93, December 1933, pp. 6-13.

SHIPPING : AN EMPIRE PROBLEM

I. THE SHIPPING CRISIS

THE British public seems suddenly to have woken up to the existence of an urgent shipping problem. It is one of the things that the majority of people prefer to forget—like the slums. A rare community of opinion in the shipping industry itself has been, perhaps, the principal means of rousing public opinion lately, but as any problem grows ever more serious it is bound eventually to force itself upon the unwilling attention. This problem is not new, nor has it essentially altered, save by intensification, in the last year or two, but every day makes its solution the more imperative.

In large part, it is a world problem, in which Great Britain shares along with other seafaring nations. That fact we must bear in mind at all costs. Our shipping industry is terribly depressed, but so—to judge from the figures of idle tonnage*—is that of every other country in the world, with the possible exception of Japan. World trade has shrunk to a fraction of its former self, as a result of the economic crisis directly, and also of the accompanying rise of tariffs and quotas. Our own protective policy, imperative as it may have been for other reasons, has contributed a great deal to the difficulties of our shipping industry. To take a limited but illustrative example, it is calculated that eight ships formerly engaged in the Birkenhead-Ireland trade will be permanently laid up as a result of the recent cut of 50 per cent. in cattle imports from the Irish Free State. The more successful protection is in

* See THE ROUND TABLE, No. 92, September 1933, p. 838.

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fostering domestic production for domestic consumption, the more desperate must grow the condition of our mercantile marine. Obviously the first principle of a policy for shipping must be the strenuous advocacy of greater liberty of international trade everywhere.

Yet even if world trade had not been subjected to the disastrous attrition of the past five years, there would still have been a considerable surplus of shipping available.* For that fact several reasons are responsible—the great expansion of the shipbuilding industry during the war, resulting in a seriously excessive output afterwards, when the submarine no longer stood the shipbuilder's friend; government promotion of shipbuilding activity in one way or another; the inability of the shipping owners to earn sufficient depreciation on their fleets, and hence their reluctance to scrap redundant tonnage; and the greater efficiency of modern ships per unit of tonnage, through higher speed, more economical use of cargo space, and equipment for more rapid "turning round." These are world-wide problems, and must be tackled, eventually, on a world-wide scale. Some of them are capable of partial solution by national action, and all of them must be borne in mind when we consider national policies designed to meet other difficulties. Any suggestion for action that did not take account of the redundancy of world tonnage—a misfortune to which the British mercantile marine has contributed, if anything, rather less than its proportionate share—must be discarded at once.

Nevertheless, there is also a specifically British problem, one which this country, an exposed island at the heart of a scattered empire, neglects at its peril. Our relative position is growing steadily worse. The share of the United Kingdom in world shipping business has fallen, not merely as compared with pre-war days, but even during the last few years. In 1914 we owned 41·6 per cent. of the world's tonnage; in 1932 our share had fallen to 28·2 per

* See THE ROUND TABLE, No. 92, September 1933, p. 837.

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cent., and last year to 27·5 per cent. It is true that, having regard to carrying capacity, speed, refrigerated cargo space, and other technical factors, the existing shipping of the United Kingdom, taken as a whole, is substantially superior to that of 1913, but it is the trend that is significant. If we are gradually losing ground to our competitors, it will become increasingly difficult for us to maintain even our present level of efficiency. Whereas between 1914 and 1933 world tonnage increased by 21,224,000 tons, British tonnage fell by 300,000 tons.

It needs but a moment's contemplation for us to realise how grave a calamity the failing strength of our mercantile marine would be for the British Commonwealth. We are dependent for our barest subsistence needs upon overseas sources of supply. If they are to be assured to us in the event of war, we require not only a navy strong enough to defend our trade routes but also a merchant fleet of our own to carry men, foodstuffs, fuel, munitions, and naval and military supplies. Even ruling out the possibility of war on a grand scale, shipping is the greatest of our invisible exports, a vital provider of the means to buy foodstuffs, raw materials and manufactured goods from abroad. It may well be described as the key to the key industries.

We should be crying for the moon were we to demand a return to our pre-war supremacy in world shipping—an aim as impossible as the Victorian ideal of remaining "the workshop of the world." Just as other nations have learnt our industrial technique, so other nations have set up in the ocean carrying business. In particular, the war gave the United States and Japan their opportunity to build great mercantile marines, and we cannot conjure away the war now. But there is no reason why that process should be indefinitely prolonged, and certainly no reason why we should submit to its being artificially stimulated. The British mercantile marine can and must meet all legitimate competition; if it cannot do so, in perhaps the least sheltered industry in the world, it will

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have to go under, or we must pay a heavy price indeed for keeping it afloat. On the other hand, competition based on subsidies, government aid to shipbuilding, replacement bonuses, and other artificial support demands special defences which individual shipowners are wholly unable to construct. Over £30,000,000 a year is now paid by foreign governments in subsidies to their ships, and the menace spreads even to those imperial trade routes which have been peculiarly our own province.

One notorious example, which was described in a recent issue of *THE ROUND TABLE*,* deserves to be quoted again. The Matson line, trading from the United States to Australia *via* Honolulu and New Zealand, has been subsidised heavily by the United States Government, to the serious injury of the British lines long established on the same and associated routes. Not content with this, the United States forbids any but American ships to carry passengers or cargo from San Francisco or Los Angeles to Honolulu, save as part of a through voyage; whereas the Matson line is quite unrestricted in its competition with British ships on the comparable passage between New Zealand and Australia.

II. THE BATTLE AGAINST SUBSIDIES

BYOND doubt, the best solution would be international agreement for the mutual abolition of shipping subsidies and all similar devices. Indeed, in the long run this is the only possible cure for a disease from which all—subsidising countries and others alike—are suffering. It must be the basis of our long-range policy and the test of our short-range policy. Whatever else we decide, our programme must include an open offer to the world of a “pact of non-aggression” in shipping matters. Unfortunately, the deliberations of the World Economic Conference

* See *THE ROUND TABLE*, No. 92, September 1933, p. 843.

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committee that considered the question of shipping subsidies gave little ground for hope that such a pact would secure general adherence within a reasonably short period. The problem was shelved, on the French plea that it could not be considered in the absence of exchange stability, but not before the United States Government had made it quite clear that no argument in general terms could shake their determination to continue a policy of subsidies.

In default of a world-wide agreement, there are but two alternatives before us : to do nothing, or to take defensive measures either on our own or—far better—in co-operation with other maritime countries having the same main objective as ourselves. To stand idle may possibly be the least evil of two unfortunate choices, but let us be clear what it means. It probably means the gradual displacement of British by foreign shipping, starting with the trade between different foreign countries but extending even to the coastal trade of the United Kingdom. That displacement may be a slow process, but it becomes more and more inevitable as bad times in the British shipping industry handicap the replacement of out-of-date tonnage by new and faster ships. Doing nothing certainly implies dealing unfairly by the great industries of shipping and shipbuilding, which are injured by every measure of protection granted to other trades, and which have, in addition, to meet continuous foreign "dumping." Manufacturing industry has its tariffs, agriculture its quotas and subsidies ; is shipping alone to go unaided ?

Yet if we turn to the shipping industry itself in order to learn what compensation or protection is required, we hear a confusion of voices. For this lack of unanimity two broad reasons may be discerned. The first is the fear of retaliation, allied with the general prejudice of the shipping industry in favour of free trade. Every barrier to trade is regarded with suspicion by those who know too well from hard experience the perils involved in wars of commercial policy. We are still the world's greatest ship-owners, and

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therefore the most vulnerable in the event of counter-attack. Already we possess 90 per cent. of the carrying trade between different parts of the British Commonwealth and 60 per cent. of the carrying trade between British countries and foreign countries ; for the sake of the margin that we might gain in these fields, are we to jeopardise all our foreign connections and risk provoking flag discrimination in foreign ports ?

There is a second reason why ship-owners do not speak with one voice. Their interests are divided. Hitherto, the liners have not suffered nearly so disastrously as the tramps, because foreign competition in that class of tonnage has been restricted by the conference system of fixing fares and cargo rates, and also because liners have picked up a good deal of trade that would otherwise have come the way of the tramps. Tramps and liners very largely compete with one another—even the formal distinction between the two is blurred, so that for statistical convenience a tramp is often taken as any vessel below 5,000 tons gross. The liner interests, in brief, fear the grant of subsidies to tramps both because that would enhance the competition of the tramps with themselves and because any foreign retaliation would largely recoil on their heads.

Nevertheless, there has recently been evidence that a large proportion of the various shipping interests have sunk their differences to the extent of agreeing that some concerted action must be taken forthwith. The Council of the Chamber of Shipping, for instance, accepted with only three dissentients at the largest meeting of the Council ever held a resolution which was based on the report of their Tramp Committee, and which acknowledged the principle of a temporary subsidy for any section of the British mercantile marine that could prove its necessity. "Sections of our mercantile marine," said the chairman of the Orient line at the annual general meeting of his company in December, "are threatened with ruin by the concentrated attack of foreign nations, and it appears to us not only proper but the

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duty of His Majesty's Government, here and in the Dominions, to maintain the British position by temporary subsidies or other means until they shall have restored normal conditions." The chairman of the P. and O. company likewise spoke at length about this problem, demanding specific defensive action as part of an Empire-wide policy.

When we turn, however, from the urgent call for action to the question of what form that action shall take, we are in the field of controversy and speculation. Three broad lines of action are open to us. One is the imitation of many of our principal competitors on the seas by the grant of subsidies ourselves. The second is an attempt to maintain our ocean-carrying business by reserving for British bottoms certain classes of trade—for instance, the coastal trade of the United Kingdom, the trade between different parts of the British Empire, or a minimum proportion of our trade with countries with whom we have commercial treaties. The third possibility is a plan of flag discrimination, by differential port dues or other means, specifically directed against countries pursuing a policy of subsidies.

There is no gainsaying that each of these alternatives carries danger and difficulties. It is true that the grant of subsidies, which is on the surface far the simplest of the solutions, would be unlikely to involve immediately any cut-throat economic war with particular countries, since it is already so largely practised by our competitors themselves. But who would deny that if we, the greatest ship-owning nation in the world, were to pursue such a course, every other seafaring country would eventually be bound to follow—Norway, Sweden and the rest? There is a further indisputable consequence which is even more disconcerting. The tramp class, for which alone subsidies are now demanded, cannot in practice be isolated from the liners. British liners could not live, competitively, between the shears of subsidised foreign liners and subsidised British tramps. Sooner or later, the conference system, which

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leaves ample scope for competition in facilities of all kinds, is bound to prove an inadequate safeguard for the liner interests. They, too, would have to be given subsidies, and the mere £3,000,000, which the tramp owners estimate their scheme would cost, would be multiplied manifold. It is asserted that the United States, with a mercantile marine little more than one-half the size of ours, spends £17,000,000 a year on shipping subsidies. Who dares say, once we had started on a course of subsidies, that the beneficiaries, often mutually in competition, would cease pressing for more till they were subsidised on much the same scale as the United States? The stakes are too high for us to enter such a hazardous game.

Above all, subsidies merely aggravate the fundamental problem, the excess of world shipping tonnage. In their enthusiasm, the tramp-owners claim that their proposals for operating and laying-up subsidies would bring into commission one half the British tramp vessels at present laid up. At whose expense? Is it to be expected that foreign ship-owners would diffidently consent to be supplanted by subsidised British tonnage? Even if no retaliatory subsidies were forthcoming, private competition would certainly be intensified, and freight rates driven lower than ever. The net result might very well be but a very slight improvement in the British share of world shipping business, coupled with a depression of freight rates equivalent to little less than the amount of the subsidy. From the point of view of shipping as a whole, a replacement subsidy would seem much more desirable than a subsidy on voyages with cargo. It is worth considering whether part of our shipping policy ought not to be modelled on the Japanese plan of subsidising each ton built in exchange for two tons scrapped.

In general, subsidies on operating and laying-up must be regarded as pernicious even from the point of view of the immediate beneficiaries. The same considerations are not, perhaps, quite so forcible if the subsidies are granted as

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temporary expedients, though they still retain some weight. The Tramp Committee of the Chamber of Shipping ask for subsidies only until conditions in the industry improve. It may, indeed, prove necessary to grant subsidies as a temporary palliative, but the form of limitation proposed is extremely dangerous, since the industry might long remain depressed for many reasons other than those to meet which the subsidy was originally awarded. It might be depressed by the increased competition of previously laid-up tonnage brought into commission by the subsidy itself; or by a decline in the comparative efficiency of British shipping; or by world economic forces of indefinite duration. If subsidies are to be given temporarily, they should continue only until a permanent policy has been adopted.

Subsidies, it has already been indicated, involve a risk of retaliation, a risk which is still greater in respect of other defensive measures—reservation of certain classes of trade for British bottoms, or discriminatory port and customs dues. It is a risk that we must face and consider carefully before embarking on any scheme. But if it is weighed against the risk of the steady deterioration of British shipping, which we run if we elect to do nothing, it fails in the balance. The President of the Board of Trade used as an argument in favour of caution the figures already quoted showing the high proportion that we already possess of the carrying trade to and from British countries. These same figures, however, can be used to lend point to an opposite argument. If we could recover one half of the trade that we do not now possess between different British countries, and between British and foreign countries, we could afford to lose over two-thirds of the rest of our shipping business.

The reaction of the rest of the world to such policies as are suggested by the Tramp Committee and others would be presumably the less serious by reason of the fact that they would be mostly belated copies of what other countries

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are already doing. The United States, France and other great nations reserve their coastal trade for their own ships. Among our own Dominions, Australia has done so for many years. The United States notoriously applies this restriction to trade between home ports and outlying American territories, for instance between the Pacific coast and Honolulu. There would thus be no innovation of principle even if, by agreement with the Dominions, we were able to reserve trade between them and the United Kingdom for ships under British flags. There is likewise ample American precedent for discrimination against tonnage concerned in a policy to which objection is taken. The White-Jones Shipping Act provides that where any American line is not included in a shipping conference anywhere in the world it can bring a complaint before the Federal Shipping Board, on whose report the Government of the United States must take action to exclude from all American ports the ships of the lines running the conference, and all their subsidiaries. The French import quota system, again, has provided examples of reservation of certain trades, or proportions thereof, for ships flying the national flag ; but this is not a suitable precedent for us, with our widespread system of commercial treaties based on the most-favoured-nation principle. In order to adopt the suggested plan of contractually reserving certain percentages of the carrying trade between ourselves and the other parties to our trade pacts, we should have to scrap our whole commercial treaty system, an undertaking which would obviously be fraught with grave perils.

All these suggestions have to be considered on their merits, and in relation to the broader issues involved. Perhaps the most important test by which they must be judged is the fact that the need for government action is created by the impact of unfair methods of competition, of which subsidies are typical. The aim of our policy must be to abolish, not to participate in, those methods. It follows that action must be concentrated, as far as pos-

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sible, against the offending countries. The most hopeful line of policy that has been suggested is the imposition of surcharges on port dues—possibly on cargoes also—in respect of all tonnage entering British ports under the flag of subsidising countries. There is obvious difficulty in deciding which countries do come under that head; the onus of proof, however, need not fall on us but on the alleged offending governments, who would be invited to furnish proof that they did not subsidise ocean-going ships, directly or indirectly, before their tonnage could be made subject to the normal tariff of port charges and import duties. It would have to be an all-or-nothing policy; we could not adjust the penalty to degrees of the offence.

III. A PROBLEM FOR THE COMMONWEALTH

IT is not our purpose to indicate precisely what policy should be adopted. On the contrary, it is our profound belief that the question of policy cannot be properly considered within the limits of a purely British view. The opinion of the whole Commonwealth should be consulted, and its co-operation enlisted, before any decision is taken. This is beyond question a problem for the Commonwealth—perhaps the most unmistakable occasion for the development of an agreed imperial policy that has arisen since the Dominions achieved legislative autonomy.

Here on this very issue, perhaps, we have come to a parting of the ways. In the course of constitutional devolution in the Commonwealth, governmental unity has been replaced by voluntary co-operation on matters of common concern, as the bond between the several members. If voluntary co-operation is neglected, the Commonwealth politically is nothing. Its future lies between regeneration and oblivion. Where is a matter more obviously of common concern than the preservation of British shipping? Failure to adopt in this instance the course of mutual consultation

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and joint action could not be blamed upon the Dominions, whose nationalistic tendencies form too easy an excuse for our own failure to pursue an Empire policy, but upon the United Kingdom herself. If war comes, we and they must stand together, constitutional formulæ and international commitments notwithstanding. If, when that happens, our mercantile marine has been supplanted by the ships of foreign Powers, the Dominions must share our weakness, even as now they share the advantages of our ocean strength. To imagine that this problem can be settled by consultation between the Board of Trade and the shipping industry—which does not even know its own mind—is to betray a foolhardy carelessness about the future of the Commonwealth. Hitherto, its development has been dominated by centrifugal forces, which may eventually destroy it altogether, unless at opportunities such as these they are vigorously counter-acted.

The complicated issues involved affect each member of the Commonwealth differently, so that a policy adopted by the United Kingdom based on her own immediate needs might easily conflict with the interests of the Dominions, and, by arousing their antagonism, ultimately defeat its own ends. The recent subsidy* granted by the South African Government to Italian lines trading to East and West African ports and the Mediterranean proves how foolish would be the assumption that, on all points, the Dominions are of like mind with ourselves. The Union Government, in explaining its attitude, repeated its declaration (made at the World Economic Conference) that it could not support a general condemnation of the principle of subsidies, including those for shipping. In India, where the service rendered by subsidised Italian lines is also an important factor, the question of reservation of coastal traffic for Indian-owned ships is an acute political issue. Australia has a special problem of high

* This topic is discussed at length in an article from South Africa, below, p. 435.

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wages and favourable working conditions, which has caused her to reserve all her coastal trade (including trade between the mainland and Tasmania) for Australian ships. She is intimately concerned with the question of subsidised American lines on Pacific routes,* and her Minister of Commerce recently hinted that "it might be necessary for the Government to take steps to ensure that parallel conditions were enforced on both sides of the Pacific." He was, he added, personally opposed to any extension of the subsidy system. Subsidised American shipping on the Pacific is even more peculiarly a New Zealand problem, since the two chief British competitors on the Australian-North American routes are New Zealand concerns, though they are in the P. and O. group. Canada, again, has a special problem, created by her neighbourhood to the United States, and the close economic interdependence of the two countries. American retaliation against British shipping might injure her interests more swiftly than those of other Dominions.

If for no other reason, the defence of shipping is a Commonwealth problem, because—provided we can light upon a united policy—the extent of the commerce of the British Commonwealth in relation to total world trade, and the critical importance of its ports for world traffic, give us a tremendous power far exceeding that which any member of the Commonwealth could wield alone.

There are those who argue that we should summon for consultation and joint decision not only the Dominions but also all those foreign Powers who are likely to be on our side in the battle against subsidies. Certainly there is no room for exclusiveness in a matter such as this, and once we have found a Commonwealth policy it must be open to any country to participate on equal terms. But our policy must first be founded on an Empire investigation. Does the existence of the British Commonwealth mean anything at all, or are the relations between its several members

* See p. 244.

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merely those of friendly foreign Powers ? Sentiment and history apart, defence shouts the answer when it is shipping that is concerned. At the end of the war, well over one-third of British ocean-going tonnage was directly employed on military and naval service, including $1\frac{1}{2}$ million tons serving the military forces of the Dominions and colonies. An ocean Empire without a common policy on the seas is a contradiction in terms. There is another important, if narrower, reason why these deliberations should be confined in the first place to the Commonwealth. Whom, among the foreign Powers, should we invite to the council table ? Plainly not all, for the World Economic Conference showed that, for the moment, universal agreement is out of the question. If we made a selection, those omitted would either grumble at not being consulted or denounce the whole procedure as particularist economic aggression directed against themselves.

In the British Commonwealth, machinery is ready to hand. Admittedly, the Imperial Shipping Committee, created in 1918 to inquire into, and report upon, matters connected with the development of sea communications between the different parts of the Empire, is not ideally suited for the present purpose, being a very specialist and official body. In 1923, however, the Imperial Economic Conference passed the following precisely relevant resolution:—

In view of the vital importance to the British Empire of safeguarding its overseas carrying trade against all forms of discrimination by foreign countries, whether open or disguised, the representatives of the Governments of the Empire declare :—

(1) That it is their established practice to make no discrimination between the flags of shipping using their ports, and that they have no intention of departing from this practice as regards countries which treat ocean-going shipping under the British flag on a footing of equality with their own national shipping.

(2) That in the event of danger arising in future to the overseas shipping of the Empire through an attempt by a foreign country to discriminate against the British flag, the governments of the Empire will consult together as to the best means of meeting the situation.

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The governments of the Empire must indeed consult together, but unless there is to be a special Imperial Conference, drawing Prime Ministers and Ministers of Commerce from all the Dominions to London, it is plain that the governments alone cannot give the problem the detailed and arduous consideration that it deserves.

What is wanted is a small *ad hoc* committee, representative of all parts of the Commonwealth, composed not of shipping experts with their diverse special interests, but of men of affairs capable of reviewing the problem in its broader aspects. The Committee's agenda should include all sides of the problem—liners, tramps, shipbuilding, the conference system, subsidies, and a score of other matters. It should take time to investigate circumstances and opinions in every part of the Commonwealth. If necessary, an interim report might be presented on the emergency issues.

It is, indeed, an emergency problem with which we are faced. Yet even more dangerous than delay would be the adoption of a limited national policy, before we had consulted the Dominions or enlisted their help. Whatever we do, we are bound to arouse enmity in certain quarters abroad; it would be a disaster if, for want of following the principles of Empire co-operation which we freely acknowledge, we were to arouse dissatisfaction or distrust among our fellow members of the British Commonwealth. The Balfour resolutions and the Statute of Westminster founded a new Commonwealth upon the principle of free co-operation, a principle which is translated into practice according to the needs and traditions of each branch of public activity. If, when so clear an occasion arises for its exercise, it is deliberately neglected in favour of unilateral decision by one member, we may be forgiven for fearing that the principle itself will gradually wither into an obsolete formula, leaving of the Commonwealth nothing but a memory and a name.

NEWFOUNDLAND

I. THE CAUSES OF COLLAPSE

AFTER enjoying responsible government for over three-quarters of a century, in February of 1934 Newfoundland ceased to be a self-governing country. This strange occurrence in the affairs of the British Empire clearly demands an explanation.

Though legislation by Parliament at Westminster was required in order to accomplish this change in the Island's status, it is not by any arbitrary act of the British Government that self-government has been withdrawn from a Dominion. That would have been impossible. It has been a long recognised practice, emphasised for all the Dominions and made statutory for some Dominions in the Statute of Westminster, that the Mother of Parliaments cannot pass any law applying to the people of a Dominion, let alone one to take away their self-government, except with the consent and at the request of that Dominion. The Newfoundland Parliament, in fact, by a unanimous vote, petitioned the King, asking him to issue new Letters Patent which would suspend parliamentary and responsible government in the Island and establish government by a Commission in its place. Self-government did not die by a murderer's hand; the verdict must be suicide while temporarily insolvent.

Newfoundland's proudest boast was not that she was a Dominion, but that she was the oldest British colony, a historic claim of which no constitutional changes can deprive her gallant people. The Island is not much smaller in area than England, but is sparsely peopled, its population being estimated at 282,000 souls. Of these, 40,000 live

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in St. John, the only large town in the place, while the remainder are distributed amongst some 1,300 small settlements, scattered for the most part along the 6,000 miles of coast. About 100,000 of the inhabitants are engaged exclusively in fishing or else as fishermen-farmers. The prosperity of the Island depends to-day, as it has always done in the past, almost entirely on the fishing, and a foolish neglect of the interests of this prime activity is one of the main causes of the fate that has recently befallen the community.

There is no mystery about the origin of the series of events that culminated in the present pass. It began in 1931 with an appeal from the Newfoundland Government to the United Kingdom Government to send out a financial adviser to help them to grapple with grave difficulties which had already been allowed to develop too far. The Island suddenly found itself unable to pay from its own resources the interest on its overseas debt. The steps by which this position was reached can be described in a few sentences. At the close of the world war, in which the humble fishermen of Newfoundland had shown a loyalty and courage as great as were displayed in any part of the Empire, the public debt of the Island totalled \$43,000,000. In every year from 1920 to 1932 its budget was unbalanced. The average annual revenue for this period was \$9,250,000, the average annual expenditure \$11,250,000, and the average annual deficit \$2,000,000. In each of these years an external loan was raised in order to enable the Government of the day to liquidate this perpetual deficit. But that was not all. The Government, with almost sublime contempt for the dictates of financial prudence, also used large parts of these loan funds each year to embark upon costly new schemes of capital expenditure, not one of which has proved directly remunerative. As a result of this dual process of fiscal profligacy, the public debt within a dozen years more than doubled itself, rising to \$97,638,772 by the end of July, 1932. At the moment when Lord

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Amulree's Commission presented its report, the debt stood at a little under \$101,000,000, and the payments for interest on it, including provision for exchange fluctuation, amounted approximately to \$5,200,000 per annum, or about 65 per cent. of the annual revenue. It was the Government's failure to obtain any money when for the thirteenth year in succession it endeavoured to raise a loan that brought the community face to face with the fact that it could not pay its debts and was heading swiftly for bankruptcy. Superstitious people may attribute this disaster to the malign influence of the unfortunate figure thirteen, but for others the explanation will be more simple.

It is not possible in the space of this article to enter into the details of this astonishing financial policy. There is only one possible excuse for it that approaches the reasonable. As has been said, Newfoundland's well-being had always depended almost entirely on the success of one industry, fishing. That was, and still is, a serious weakness. The fortune of the fishermen was sometimes good and sometimes bad. There was never much certainty about it, and a series of bad seasons would spell disaster. It would have been better for the Island had there been other industrial activities of sufficient importance to help to smooth out the fluctuations in its prosperity that followed the whims of the fisheries. Much of the wild capital expenditure between 1920 and 1932 was, indeed, incurred upon attempts to attract other kinds of industry. The Government spent large sums of money on taking over and improving the railway, on an ambitious scheme of high-road construction, on the expansion of the telegraph and telephone services, on the construction of a dry dock, and so on. But these efforts proved of no avail, and, important though they are in some respects, the paper mills and the great iron mine that do exist in the Island yield comparatively little either in employment for the people or in revenue for the Government.

Worse still, while money was being poured out on these

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fancy schemes, the one industry whose prosperity and development were a matter of life and death to the country was neglected. Loans amounting to over \$50,000,000 were raised after the war, yet less than \$1,000,000 of the money was devoted to stimulating the industry that was of chief importance. Whilst Newfoundland's principal fishing rivals, Iceland and Norway, were steadily improving their methods both of catching and of marketing their fish, and were reaping rich rewards for their perspicuity, often at the expense of Newfoundland, those in control in the Dominion allowed their own industry to go from bad to worse. They did nothing to check the rule of individualism, which was a bar to all progress.

Fishermen and merchants had done well during the war and in the brief period of prosperity that followed it. But within a decade the position had been completely reversed, and the effect of the world trade depression on this weakened industry was disastrous. At the best of times the fishing season had not lasted through many months of the summer and autumn, but under a régime in which the industry failed not only to create new opportunities for itself but even to preserve old ones the season contracted until "the average fisherman is faced with the problem of earning enough in three or four months to last him a year." His chance of doing this was already handicapped by the vicious credit or truck system by which he did his business with the merchant, and three successive seasons from 1929 to 1932 in which fish prices, like most others, fell to extremely low levels reduced the vast majority of the Island's population to abject poverty.

There have been recurrent periods in the Island's history when the failure of the all-important fisheries have necessitated the supply of public relief on a large scale to the fishermen's families all round the coast. For though one passage in Lord Amulree's report describes in almost lyrical terms the life that is possible in the Island, and

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holds out a great hope for the future, circumstances in the past have conspired to destroy the pleasant prospect.

Each man (says the report) is quite capable of building his house; the sea supplies him with food, both to eat and to sell; his little plot of land provides him with vegetables; the countryside each summer is alive with wild fruit; and an occasional rabbit or duck adds variety to his fare. He pays no local rates or taxes for there is no local authority or direct government tax; as a rule he pays no rent for he generally owns his own house and a plot of land. . . . Provided that the fishing season is good, and he can obtain a reasonable price for his catch, he is content, in essentials, to continue in the ways of his fathers.

Apart from other factors, such as the truck system and indirect taxes, which weigh heavily on him, the price that the poor fisherman has received for his catch in recent seasons has ruined him, with the result not only that since 1932 all the fishermen have been in debt, but also that the national budget has been swollen by huge sums paid out in relief. During the winter of 1932, for instance, no less than 70,000 persons, or one-quarter of the entire population, were in receipt of public relief, other than poor relief or relief for the aged poor. Despite the fact that this relief was of the most meagre kind, consisting of rations of pork, flour, tea and molasses to the maximum value of \$1.08 per head per month, its cost in that one year alone amounted to \$1,100,000 or one-seventh of the revenue of the country. When this burden is added to that of the public debt, the hopeless financial straits of the Island can be imagined.

Even if the authorities had been blessed with wisdom in spending the money they rashly borrowed, their folly in raising it would have found them out when the world depression descended upon their little Island. While times were normal the weakness of their financial policy did not show itself, and people deluded themselves with hopes that the money spent in endeavours to attract other industries to the country would bear fruit and soon begin to bring in a return. But the awful trade depression, which brought some far more powerful communities

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to their knees, inevitably struck at this people a blow that was mortal.

That is the main thread of the story. But there are other relevant factors in the general situation, and two amongst them must be particularly though briefly noted. First, the administrative machine, which should play an important part in maintaining good government in the country, has been largely destroyed, owing chiefly to the intrusion of the spoils system into the civil service. It had been customary for administrative posts, high and low, to change hands for purely political reasons as Governments rose and fell, with the results that civil servants enjoyed no security of employment, that disinterestedness, experience and ability among them often counted for nothing, and that the service inevitably became inefficient and demoralised. Secondly, the electorate generally have little experience of practical political affairs; outside St. John there is no municipal government which might help to train them in their responsibilities as voters; and under a paternal system of government they have, in fact, been accustomed to support whichever candidate made the largest promises of material help to his own constituency, regardless of any wider considerations. The deterioration of the political system in recent times is one of the major problems of Newfoundland.

The islanders made a desperate effort to ward off disaster when its imminence was plain for all to see. They secured the assistance of experienced British financial advisers with wide powers of control. They agreed to humiliating terms with the Canadian banks who first came to their rescue when suddenly their borrowing power in the public market ceased and default stared them in the face. They sold the exclusive rights to import gasoline (a commodity essential to every fisherman) to an external private company in return for further aid. They drove out their old Government and returned by a vast majority a new set of Ministers in the hope that they might perform miracles,

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and these new leaders courageously wielded the economy axe with unprecedented sternness (salaries and pensions of all sorts, for example, being cut by various amounts ranging from 20 to 45 per cent.). Finally, in return for advances from the Canadian and United Kingdom Governments to tide them over two further dates when payments of interest on the public debt were due, they agreed to the appointment of a Royal Commission to enquire into the whole position, financial and otherwise, of the Dominion.

II. THE AMULREE COMMISSION

THE report of the Commission is a document of high importance. Its authors, after an exhaustive examination of their problem, reported that Newfoundland had indeed received a blow from which it would be extremely difficult for her to recover. They concluded that :—

1) The estimated expenditure of the Government for the year 1933-34 was \$11,565,889, the estimated revenue \$8,284,338, and the estimated deficit therefore \$3,281,551.

(2) Economies had been so drastic that expenditure could not for long remain at its present low level, while revenue for some time was more likely to decrease than to increase.

(3) While world conditions remained abnormal, there was likely to be a recurrent annual deficit in the neighbourhood of \$3,000,000 (or nearly 40 per cent. of the revenue) so long as the country was saddled with its present burden of debt and was unable to recapture its lost foreign trade.

(4) Without a "long-range programme of reconstruction" the country would have little power of recuperation even when times improved.

(5) The existing burden of public debt was wholly beyond the country's capacity, and must be lightened if it was to be saved from imminent danger of financial collapse.

Having made up their minds that these were the deplorable but unescapable facts, the members of the Commission considered carefully the various means by which the situation might be saved. They themselves had

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defined the problem ; affairs were so bad that it would not be enough simply to devise financial means of overcoming budget deficits during the immediate crisis ; without a "long-range programme of reconstruction" the country would stand little or no chance of recovery at all, even when world conditions became normal again. What was required was not simply a piece of sound and ingenious finance, but a comprehensive policy of constructive statesmanship.

In the light of this they examined the possible alternative methods of dealing with the situation, first considering whether Newfoundland could find unaided, out of her own resources, the answer to the conundrum. Here there were two main possibilities : the country might default on the full interest payments on its excessive public debt, or it might sell or lease Labrador, that undeveloped but potentially rich territory which, as a result of the famous litigation of 1927, had been confirmed in its possession.

Proposals for default the Commissioners rejected because of the damage that such a policy would do to the Island and its inhabitants. They urged that its first effect would be to shatter the country's credit, causing a decline in trade and a check to all development. Not only would this destroy the prospects of increased employment, higher wages and improved social conditions generally ; a decline in the trade of an island dependent on imports for a large proportion of the necessities of life would result in a lowering of the existing standard of life. In fact the worst sufferers from default would be the fishermen and their families themselves. But in addition to this the Commissioners had to take into account a wider consideration.

We have been content to dwell (they wrote) on the consequences of default to the Island itself and to pass over the effects which default by a part of the British Empire would be likely to produce on other parts of the Empire and even elsewhere. . . Default by a British community would be without precedent, and such a step would at once retard the general recovery and tarnish the good name of the British Commonwealth.

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The sale of Labrador offered no better prospect of solving the problem. In fact, the suggestion was not a practical one, for apart from any other consideration neither Canada, the proposed purchaser, nor Newfoundland, the proposed vendor, was willing to play its part. Therefore it was impossible for the Island to overcome its difficulties by resort solely to its own resources. The Commissioners turned to examine various means by which external aid might be brought to the rescue.

They first considered the old suggestion that Newfoundland should join a political and economic union with Canada. But whatever intrinsic merit it might possess, this proposal, too, was outside the field of practical politics. For various reasons the people of Newfoundland would not listen to the suggestion, and it must be remembered that the country was a Dominion, that its people enjoyed responsible government which could not be taken away from them by any external authority, and that therefore any proposals that the Commissioners made would need to win the support of these people if they were to have a chance of being tried in practice and proving successful on trial.

By a process of elimination Lord Amulree and his colleagues were left to consider various means by which the United Kingdom could bring the necessary aid to Newfoundland. In their minds all the time was their great objective: the country needed not only financial arrangements which would mean a considerable reduction in its burden of debt but, what was of less immediate but of far greater ultimate importance, a Government with the wisdom and power to pursue sane policies of economic reconstruction and development which would gradually set the community on its own feet once more. Any reliance on the old system of government would be more than likely to defeat that purpose. It was clear that the new Government must attack the old evil of the credit system, reorganise time-honoured methods of conducting

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the fishing industry, establish a proper system of civil service, and in many directions act drastically and boldly.

In the end the Commissioners themselves led the way by making bold proposals. They rejected as inadequate all suggestions for half measures (such as that Great Britain should provide the necessary financial aid in return for Treasury control of finance within a patched-up system of self-government). They recommended a scheme of wholesale reform consisting of two interdependent groups of proposals, financial and political, the latter of which meant for an indefinite period the end of self-government in the Dominion. They proposed, in accordance with correct constitutional practice in such an extraordinary situation, that the Newfoundland Government should make an immediate appeal for the sympathetic co-operation of your Majesty's Government in the United Kingdom in the execution of a joint plan of reconstruction of which the following would be the main features:—

(1) The suspension of the existing form of government until such time as the Island may become self-supporting again.

(2) The creation of a special Commission of Government, which would be presided over by the Governor, would be vested with full legislative and executive authority, and would take the place of the existing Legislature and Executive Council.

(3) The Commission of Government would be composed of six members, exclusive of the Governor, three of whom would be drawn from Newfoundland and three from the United Kingdom.

(4) The Government Departments in the Island would be divided into six groups. Each group would be placed in the charge of a member of the Commission of Government, who would be responsible for the efficient working of the Departments in the group, and the Commission would be collectively responsible for the several Departments.

(5) The proceedings of the Commission of Government would be subject to supervisory control by your Majesty's Government in the United Kingdom, and the Governor-in-Commission would be responsible to the Secretary of State for Dominion Affairs in the United Kingdom for the good government of the Island.

(6) Your Majesty's Government in the United Kingdom would, for their part, assume general responsibility for the finances of the Island until such time as it may become self-supporting again, and would, in particular, make such arrangements as may be deemed just and practicable with a view to securing to Newfoundland a reduction in the present burden of the public debt.

Newfoundland

III. RECONSTRUCTION

CARE had been taken to see that every interest in the Island was consulted while these proposals were being evolved, and that whatever the recommendations of the Commission might be they would command the approval of the Government and people of Newfoundland as well as of any other Government or people concerned. The Commission itself had consisted of one member selected by the Newfoundland, one by the Canadian and one by the United Kingdom Governments. So well had they done their work that when they presented their report no one sought to escape the conclusions that they reached. The Parliament and Government of Newfoundland accepted their findings and recommendations, and though time prevented the taking of a plebiscite of the whole population, all who are in touch with public opinion in the Island agree that such a vote would have resulted in an overwhelming majority for the Commission's scheme.

The politicians who led the country in accepting the new proposals showed an unselfish patriotism, and the people who followed them displayed good sense. For Great Britain acceptance of the scheme meant new financial burdens and a considerable addition of political responsibility, but here, too, imperial patriotism and common sense prompted acceptance of the scheme with all its consequences. The necessary legislation providing for the suspension of the old constitution and the establishment of the new, and for the proposed financial arrangements concerning the public debt, was passed through both Houses of Parliament as soon as the Newfoundland Legislature had itself accepted the proposals and petitioned the King.

Under the new constitution the British Government is generally responsible for the finances of the Island. The Royal Commission had made it plain that even a reformed

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system of government there could only hope to succeed in its difficult work if the burden of the country's public debt was reduced. The first task of the Home Government was to achieve this reduction. The plan adopted took the form of an offer to holders of the bulk of the existing debt of Newfoundland to exchange their securities for a new 3 per cent. Newfoundland stock, redeemable at latest in 1963 at par, and fully guaranteed as to principal, interest and sinking fund by the United Kingdom Treasury. Thus although the new rate of interest was substantially below that borne by the old securities—most of which were at 5 per cent. or more—the capital value of the new stock was designed to represent approximately the equivalent of the principal surrendered. Legislation passed by Newfoundland provided that no interest should be paid or accrue on securities not exchanged into new stock (other than those securities which had trustee status in the United Kingdom) so long as Newfoundland was under any liability in respect of advances made by the United Kingdom. The trustee securities, in so far as holders preferred to retain them instead of converting them into the new guaranteed stock, were given specific priority over all other Newfoundland obligations, including the guaranteed stock. Arrangements were also made to pay off a few loans affected by special considerations.

As a result of the whole series of transactions Newfoundland should be left with a debt consisting of some £17,000,000 to £17,500,000 of 3 per cent. guaranteed stock and about £2,000,000 of trustee securities (less such amount as may be exchanged for guaranteed stock). It is calculated that this will afford a relief of about £350,000 (or \$1,750,000) per annum to her annual interest burden, subject to the commencement of a sinking fund of 1 per cent. on the guaranteed stock not later than July 1, 1938. In so far as the revenues of the Island are insufficient, during the period of government by Commission, to meet the expenses of administration, including the service of the

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debt, a vote of Parliament will be needed to make good the deficiency.

Thus an astonishing change in the status and government of Newfoundland has been accomplished. Such drastic measures were bound to have their critics. Some urged that the Governments were only interested in protecting the bond-holders, and that the Dominion should have been left to default. But the Governments shared the view of the Commissioners not only that default would be a serious blow to British credit generally, but also that the severest sufferers from this policy and its inevitable consequences would be the Newfoundland fishermen and their dependants. It was mainly in their interest that default was avoided. Other critics were nervous lest this should be taken as a precedent for other Dominions' coming to the United Kingdom for help if and when they got into serious financial difficulties. But Government spokesmen in the House of Commons made it clear that this was not to be regarded as a precedent, pointing out that a condition of their coming to the aid of Newfoundland had been that self-government in the Island should cease. Other sceptics asked what positive benefit the people of Newfoundland were to get from the new system of government. Anyone who studies carefully the Royal Commission's analysis of the present situation and their suggestions for promoting economic rehabilitation and development in many directions—in the fisheries and agriculture and elsewhere—and for political reforms, such as the development of a proper civil service, will recognise that if the new government can carry through this "long-range programme of reconstruction" the people will gain much. It is with that object that the Englishmen and Newfoundlanders who are partners in this Commission of Government are entering on their work. Time alone will show whether they will succeed.

Perhaps the shrewdest criticism came from those who argued that though the people of the Island now felt favour-

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ably disposed towards the new undemocratic government, with the passage of time their ardour might cool, and for various reasons they might regret and resent their loss of self-government. When that happened the new system would be in danger. Would it not be a good idea, it was asked, to include in the new constitution from its early days some form of popularly elected assembly, with limited powers, which should enable public opinion to express itself? One of the conditions, however, that Lord Amulree and his colleagues felt most strongly to be essential, if the country was to have a chance of getting on its feet again, was a cessation of party politics for a period. It is true, on the other hand, that the new Government must keep closely in touch with public opinion. Therefore the authorities who selected the small and able team of men who are to conduct the government chose them for their political as well as their administrative gifts. In this connection it is of great importance that three of them are political leaders in Newfoundland. The whole experiment is to be a work of co-operation between Newfoundland and Great Britain; and the ultimate objective is to re-establish in the Island conditions that will enable it one day again to enjoy the status and rights of a Dominion.

AN AUSTRALIAN ECONOMIST LOOKS AT THE UNITED STATES

IT is related that a motorist once enquired of a traveller the way to Cincinnati. The traveller, in obvious doubt, suggested first the road to the left, then the road to the right. Finally he snapped out at the bewildered motorist, "Your question is absurd. If I were going to Cincinnati, I wouldn't start from here at all." The writer has every sympathy with the traveller at the White House, who is now showing 125,000,000 motorists the way to the Cincinnati of 1926 prosperity. Whether they find it reasonably soon will depend upon his ability to direct cars of widely varying size and capacity along the right road and in the right proportions. It is a task of far greater complexity than any traveller has ever essayed before, and its successful completion is a matter of great moment not only to the 125,000,000 motorists in the United States, but to motorists all over the world.

In the welter of economic experiment that gives its substance to this directing process in the United States, we may recognise five main roads. There is the monetary road, the surface of which is being made sufficiently soft to absorb the shocks that motorists with creaking automobiles and impaired strength can no longer endure on the hard roads of old times. There is the public works road, running parallel to the monetary road, but capable of taking only rather light traffic, because its bridges are weak and tolls fixed on the old standard still survive. Also closely connected with the monetary road is a new road which bears on its signpost the strange device, "This way to

The President's Task

liquidity without tears." This is the road along which distressed debtors travel—a mixed company of farmers, home-owners, mortgagors of all kinds and even bankers. For the moment they skim over the smooth surface, a delightful contrast to the pot-holes of their recent experience. These three roads apparently go direct to the goal, but no one yet knows whether they are really parallel and therefore destined to meet only at infinity, or whether they converge at a reasonable distance. Two other roads take a more circuitous route, but the motorists career along them with enthusiasm. Their respective signposts bear the letters N.R.A. and A.A.A.—signs which, at first sight, look familiar to the motorist, though they are really quite new. The first road leads to the National Recovery Administration, and the second to the Agricultural Adjustment Administration. The first starts off at right angles to the three roads already mentioned, and the second at an angle of 45 degrees. No one in the United States has traversed the full length of either road, and it is as yet by no means certain that either of them will ultimately reach Cincinnati. If they do not, the directing traveller may tell you that he has experienced two difficulties with these two roads. First, he had no choice as to the starting point, and, second, he is by no means certain whether Cincinnati or some more distant and quite new city is the goal.

I. THE PRESIDENT'S TASK

AT this stage we may drop a somewhat clumsy analogy. President Roosevelt has in nine months improvised a policy and an administration that would do credit to any war Government. In his inaugural address he spoke with unexpected frankness: "This nation asks for action, and action now." Again, "I assume unhesitatingly the leadership of this great army of our people, dedicated to a disciplined attack upon our common problems." His most

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bitter opponents concede that he has at least lived up to his words. He has directed a most vigorous attack on the five fronts indicated above—monetary ease, public works, relief of debtors, ordered industrial relations, and agricultural adjustment. He has closed the ranks of the nation in support of this attack. Though the news from all the fronts is not uniformly good, there is little loss of morale behind the lines, and no sign of ennui in the trenches. There has never before in history been an economic campaign comparable in magnitude or in complexity. In Australia we had a task of bewildering difficulty, but we started earlier, we had institutions that had already proved their strength, and our economy was much less complex. Moreover, we had a plan, whose component parts fitted nicely into the whole, and we were not unduly embarrassed by attachment to standards of prices and incomes belonging to the era of prosperity.

The President and his advisers have been improvising a plan; they took up the task at a moment of actual, and not prospective, financial and economic collapse; they have been forced to establish new and untried institutions; and they are still embarrassed by the doctrine that the standards of the era of prosperity are inviolate. There are yet other differences—social and political—that make their task formidable. The population is heterogeneous; the constitution prevents complete freedom of action with regard to contracts; there is a conflict between long and short period policy; and there are wide differences of opinion in the so-called "brains trust" itself. Finally, a tradition of individualism and a gross exaggeration of the possible defects of government control and management lead to distrust of measures that would be taken as a matter of course in Australia. Some of these differences are of more interest to the political scientist than to the political economist, but both critics and friends of the President must take them into account in comparing the Australian experiment with that now in progress in the United States.

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The President's attack is made, of course, upon an economic depression of unparalleled magnitude. Its causes are not perhaps yet agreed upon among economists, but its symptoms are too obvious to admit of any dispute. Fundamentally, there are gross distortions in the price and income structure, a collapse of investment and a tremendous overburden of debt. This is quite familiar in these days, but the spectacle of 125,000,000 people, occupying perhaps the most favoured area in the world, and employing a technique unexcelled by other nations, yet almost overcome by their financial and economic plight, is surely one of the most remarkable sights of all time. The splendid resiliency of the country had lifted it out of many a hole in the past. Why not also to-day? The hole is larger, it appeared more suddenly, and it is by no means clear that the economy has its old-time buoyancy. A fall of prices of the order of 50 per cent. in four years is something new. We had it in Australia, but we cut short its debilitating effects by swift if unorthodox action. The United States, with heavier responsibilities as an international creditor, was anchored to gold, and was denied the freedom of action required in the circumstances. She was also effectively tied to traditional ideas in banking and finance until March 4, 1933. Always hoping that prosperity was just round the corner, President Hoover and his advisers failed to realise that an enormous dead-weight of debt and a distorted price structure destroyed completely all possibility of new investment, which is the invariable source of recovery. It is by no means certain that President Roosevelt and his advisers recognise the importance of investment, but they at least understand the need for the liquidity of existing debt as a preliminary to the restoration of investment. They are not content to allow so-called natural forces to solve the problem in time, because they instinctively feel that this solution involves needless delay, much distress, and protracted financial disorder.

Consider the facts. National income fell from 85

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billion dollars in 1929 to 40 billions at the end of 1932. Fixed interest-bearing debt was estimated at 155 billions in 1929, and it was still 134 billions at the end of 1932. No doubt some adjustments of interest had been made and many debtors were not paying interest, but the outstanding fact was that fixed debt had fallen by 15 per cent., while national income had fallen by over 50 per cent. This was symptomatic of the national difficulties. Variable prices and costs had been cut in half, fixed charges had fallen but little. Every cost, in its reverse aspect, represents income to somebody, and there was consequently a gross inequality in the effects of the depression upon the several groups of incomes. These inequalities aggravated the depression because they left the debtor classes as a whole with a hopeless task of falling prices and increasing real costs. The creditors were impotent because they suspended their constructive function of making new investments. This was perhaps the real substance of the President's inaugural declaration—"Yes, the money changers have fled from their high seats in the temple of our civilisation." A deplorable and devastating credit deflation was in progress. It was the old-time scramble for liquidity, and it could end in only one way—financial malaise.

II. ORDERED INFLATION

THE President could choose one of two courses—ordered deflation or ordered inflation (reflation as some people prefer to call it). He chose the latter. He has been severely criticised, as was Australia in 1930, for not preferring deflation, but his critics rarely stop to think of the overwhelming difficulties of that course. A wholesale reduction of debts, including bank deposits, insurance policies, and public debt, of the order of 40 per cent. would be logically the first step in deflation. Can we assert with any degree of confidence that the President could have

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overcome the constitutional and psychological obstacles? And if he had, can we ignore the bitterness that would have endured for years? If deflation was to be carried out with consistency and vigour, the debt reductions should have been accompanied by an all-round cut in incomes—a measure which the country had no means whatever of enforcing. Perhaps the President could have tempered deflation with some justice by providing machinery for debt adjustment, but he had no faith in deflation as a way out. Australian experience suggests that on the whole he was right. We deflated on a comprehensive and limited scale. The President inherited a situation in which partial and unlimited deflation had wrought havoc. He decided to reverse the swing of the pendulum.

His emergency banking measures do not call for comment here. We are concerned with his attack on the five fronts already mentioned. Let us consider the salient points in this attack.

1. *Monetary Policy*

It is probably correct to say that the President drove the United States off gold as part of his plan. Be that as it may, the refusal in April to issue licences for the export of gold was followed by a depreciation of the dollar, and by the granting of specific power to the President to devalue the dollar down to a minimum of 50 per cent. In October, when the dollar was growing stronger and recovery was flagging, the gold buying programme was started. This was followed by legislation in January setting devaluation limits of 60 per cent. to 50 per cent. of the old gold content of the dollar, establishing a \$2,000 million fund to control the exchanges, and appropriating the gold reserves and the profit thereon for the Treasury. By his declaration of January 31, fixing the price of gold at \$35 an ounce, and purchasing all gold offered in New York, the President completed his plan for effectively depreciating the dollar by approximately 40 per cent. The effects of this declaration upon international currency conditions will be

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discussed later. The President set out to depreciate the dollar, and he has succeeded. It is significant that he is given the right to use the equalisation fund to strengthen the bond market, if necessary. Much has been made of the consequences of a weak bond market, and the President has apparently been disturbed by the criticism. He may feel more secure with this new weapon at his disposal, but it is by no means certain that it is effective or that it is his only weapon.

2. Public Works

Under the National Industrial Recovery Act of June 26, 1933, a sum of \$3,300 million was appropriated for public works. Later the Public Works Administration (P.W.A.) was created. Since all provisions for self-liquidating projects under the supervision of the Reconstruction Finance Corporation (R.F.C.) had been eliminated in the new legislation, it was expected that expenditure would proceed rapidly. The expectation was unreasonable. To plan a large programme of public works requires time, and only a small sum had been expended by the end of 1933. But the P.W.A. had been very busy preparing plans and letting contracts. Meanwhile the President had established the Civil Works Administration (C.W.A.) with an appropriation of \$400 million for special winter relief for four million people. Rates of pay in excess of the ruling competitive rates were granted on these relief works. This is one of many outcroppings in the recovery plan of the doubtful doctrine that old standards of the era of prosperity can be revived. The C.W.A. is continued under a fresh appropriation in the 1934-35 budget. How much it will spend this year is not clear, but a reasonable estimate places it at from \$1,000 million to \$1,200 million. This also is the probable expenditure of the P.W.A. in the current year.* The C.W.A. is undoubtedly a form of

* According to present official policy, it is intended to terminate C.W.A. expenditure on May 1. If this is done, the total expenditure on relief and public works will fall short of these estimates.

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special relief expenditure. How much the expenditure will add to national income it is impossible to estimate. Little attention has been given in the United States to the "multiplier"; that is, to the ratio of the final increase in national income to any direct addition by way of capital expenditure. At its maximum rate of expenditure the P.W.A. will be employing directly some 750,000 men, so that for the present the total works programme accounts for 4,750,000 men. The indirect increase in employment from the P.W.A. will be considerable because there is a much greater demand for materials than in the C.W.A. It would be not unreasonable to assume another 750,000 new employees in accessory industries. The total of the C.W.A. and the P.W.A. direct and indirect employment cannot be less than 6,000,000 when the two are running at their maximum rate of expenditure.

We must note in addition the Civilian Conservation Corps (C.C.C.) with over 1,400 camps and about 325,000 men engaged at \$30 per month, plus sustenance, to work on the national forests. The C.C.C. has an appropriation of \$300 million for 1934-35, and offers a special form of relief to war veterans at economical rates.

The funds for the P.W.A., the C.W.A. and the C.C.C. come from the R.F.C., that giver of all good things, whose multifarious activities, started under Hoover, have been greatly increased under Roosevelt. In the days of the Hoover Administration the R.F.C. passed all projects for "self-liquidating" public works, but this saving clause was eliminated in the National Industrial Recovery Act, from which the P.W.A. derives its authority.

3. Liquidation of Debt

Very important measures have been taken to deal with the debt problem. We may discuss them under the two headings of bank liabilities and mortgages. The banking problem perforce engaged the early attention of the President. The R.F.C. had been established by President

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Hoover on February 2, 1932, partly in order to provide relief to banks. Direct loans were made by it to weak banks. By December 31, 1932, it had lent \$850 million to 5,582 banks. When this fact became known to the country in the R.F.C.'s quarterly report in January 1933 the information was, as Messrs. Beard and Smith remarked in their admirable study* of the New Deal, "almost unbelievable." Under President Roosevelt the R.F.C. purchases preferred stocks or capital notes of the banks. In the case of non-member banks these purchases are conditional upon adequate inspection by the R.F.C. Up to the end of 1933 no less than \$800 million of preferred stock or capital notes had been so purchased, and in the 1934-35 budget provision is made for the purchase of another \$400 million. This is a much more satisfactory form of assistance than direct loans. It increases the control of the R.F.C. over the whole banking system, and strengthens bank capital, which is the ultimate safeguard for the depositor. On the other hand it adds to the responsibilities of the government, but with a banking system like that of the United States this steady encroachment of government is inevitable.

Under the Federal Deposit Insurance Corporation (F.D.I.C.), plans have now been made for liquidating the deposits of closed banks and insuring deposits in all member banks of the Federal Reserve system, and in such non-member banks as desire to enter the insurance scheme and can meet the conditions laid down by the F.D.I.C. For the moment, these two measures—purchase of preferred stock and deposit insurance—have, as one authority remarked, placed the banks in "good shape" for meeting all demands upon them.

Next in order of importance in the liquidation of debt is the organisation of the Farm Credit Administration (F.C.A.). This new administration co-ordinates all the federal agencies dealing with farm credit. Among the

* Charles E. Beard and G. H. E. Smith : *The Future Comes* (The Macmillan Company, New York), 1933.

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new measures of farm credit policy now being put into operation, by far the most important is the re-financing of mortgages and farm debt. The F.C.A. is empowered to borrow \$2,000 million for this purpose in bonds at 4 per cent. These bonds are now guaranteed as regards both principal and interest by the Federal Government. Similar measures are being taken for urban mortgages through the Home-Owners Loan Corporation (H.O.L.C.), which is also empowered to borrow \$2,000 million in 4 per cent. bonds guaranteed as to interest by the Government.*

Mr. Roosevelt is apparently a firm believer in Walter Bagehot's maxim that a crisis demands an expansion and not a contraction of credit. Above all, it demands liquidity in the debt structure. By strengthening the banks and by assisting distressed debtors, the Government is making an important contribution towards this task of liquidating debt.

4. *Industry under N.R.A.*

Three reasons may be given for the early emphasis upon codes of fair competition organised under the N.R.A. First, competitive conditions during the depression raised once more the problem of child labour and the sweat shop in an acute form. Prices were ruinously low for businesses with substantial over-head costs, and the small man defended himself by imposing severe exactions upon his workmen. Second, while the anti-trust laws prevented open agreements between businesses, there was need for some "cartelisation" to protect the industrial structure from competitive deflation. Third, belief persisted in the doctrines of higher spending power as an aid to recovery and in reduced hours of work as a cure for unemployment.

In the propaganda for the codes the last reason was by far the most powerful, but it may be doubted whether employers as a whole did not attach much more importance

* It is suggested that the bonds of the H.O.L.C. might also be guaranteed as to principal.

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to the first and second reasons. Nevertheless, the doctrine of spending power has greater vogue in the United States than in any other country, and it has received very little critical attention from the economists. In Australia this doctrine was rejected by the Commonwealth Arbitration Court, to some extent on the evidence of economists. It was held that costs in industry should be reduced in order to lighten the costs of the export producer and to increase his real spending power. In this way the demand for industrial products, and for labour in industry would expand. In the United States, on the other hand, the President's "blanket code" of June 19, 1933, raised the supply price of labour and increased the prices of secondary products, especially of retail goods. It has done nothing to ease the position of the farmer and export producer or to restore investment. Yet from these two sources will spring the expansion in real spending power that will ultimately bring recovery. The doctrine of spending power is another outcrop of the faith in the old standards of living as the rightful inheritance of every citizen. These standards may once again be realised if export production can be restored, if agriculture can attain its old position in relation to the rest of the country's economy, and if public and private investment can reach their former volume. A lowering of individual standards in industry may well be necessary to attain these objectives swiftly.

5. *Agricultural Adjustments*

The A.A.A. is perhaps the most revolutionary of all the recovery organisations. It involves for the time being a rigid control over the production rather than over the marketing of the leading agricultural products of the United States—cotton, wheat, hogs and corn. Like N.R.A., it is concerned more with long period adjustment than with problems of immediate recovery, but unlike N.R.A., its driving force is derived from the need for special action to give the farmer relief from the burdens of depression.

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Agriculture has long suffered from the reduction in the export demand for American farm products, and the shift of internal demand caused by changes in diet. According to the annual report of the Secretary of Agriculture, the reduction of output to meet marketing requirements "is admittedly a temporary method of dealing with an emergency." The contraction in demand through internal depression and interruptions in international trade is to be met by a swift contraction of output, but the methods adopted are not satisfactory as a long-term solution of the problem. The A.A.A. aims at restoring the real purchasing power of the farmers to its level in the base-period, August 1909—July, 1914. Its weapons are (a) voluntary cuts in output, (b) the purchase of surpluses for emergency relief expenditure, and (c) marketing agreements.

The first method is by far the most important and is now being applied to wheat, cotton, corn and hogs. For the crop year 1932-33, the cotton acreage was reduced from nearly 41 million to 31 million acres. This year it is proposed to reduce the acreage still further to 25 million acres, a reduction of 40 per cent. With wheat the reduction is to be 15 per cent., in accordance with the terms of the international wheat agreement. Corn acreage is to be reduced by 20 per cent., and the production of hogs by 25 per cent. These plans involve the withdrawal from production of from 40 to 45 million acres. Over a long period the reduction required to bring farm production within the limits of present demand is semi-officially estimated at 50 million acres, but the distribution of acreage restriction will differ substantially from this emergency programme. Cotton is not considered to have a large permanent surplus, whereas wheat restriction may have to go further than it does in the present plan. Other goods, notably dairy products, may have to be brought into the restriction scheme, but these are largely long-term planning projects and do not concern us here.

Farmers are paid to restrict their production. Under

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the farm allotment plan, payments are made according to the acreage abandoned, after the farmer has signed a contract agreeing to specific restrictions. Funds are raised by processing taxes,* and for the current year it is estimated that the total disbursements will amount to not less than \$650 million, of which cotton will account for \$150 million, wheat \$130 million, corn and hogs \$350 million, and less important crops like tobacco at least \$20 million. The taxes are, as the Secretary of Agriculture remarks in his annual report, passed on to consumers and enter into the costs of living and ultimately into the costs of industry, but they increase the farmer's income directly more than they increase costs, and their indirect effects in raising farm prices through restriction of output also give additional benefits to the farmer. With farm products for which demand and supply are fairly inelastic, restriction of acreage is considered to be an effective instrument for raising prices and farm incomes. This is a sound point, but it does not establish the case for agricultural restriction as a valuable aid to general economic recovery. Farm income for 1933 is estimated by the Secretary of Agriculture at \$6,400 million, as compared with \$5,143 million for 1932 and \$6,911 million for 1931. The increase is substantial and encouraging, but no one can say how far it was due respectively to dollar depreciation, to recovery in the volume of employment, to agricultural restriction or to expansion of credit.

The powers granted to the A.A.A., together with those of the F.C.A., involve by far the greatest measure of government control over agriculture in the history of the United States, if not in the history of all countries that have retained democratic institutions. The authors of *The Future Comes* rightly conclude that "the Government has so penetrated the institutions and procedures of the industry, from the highest national groupings to the smallest

* i.e., taxes on processes of manufacture (flour-milling, for instance) to which the products in question are subjected.

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local units throughout the land, as to gather into its hands absolute control over every act of production, processing, manufacturing and marketing of practically all agricultural and associated commodities." This is more than a recovery plan. It is an experiment in a planned economy the fate of which may have important consequences for old and new countries alike.

The emergency programme for public works and debt liquidation involves an expenditure on capital account estimated at \$6,000 million for the current year. This suggests an extravagant fiscal policy, and is in striking contrast to the earlier budget policy of the President. He cut wages of federal employees by 15 per cent. in 1933 and substantially reduced the veterans' bonus. "Too often in recent history," he remarked in his budget message to Congress, "liberal governments have been wrecked on rocks of loose fiscal policy." In his latest budget message, that of January 4, 1934, he planned for a deficit of \$7,000 million in 1934, and of \$2,000 million in 1935. "We should plan," remarked the message, "to have a definitely balanced budget for the third year of recovery, and from that time on seek a continuing reduction of the national debt." The public debt of the United States fell from \$26,600 million in 1919 to \$16,800 million in 1931. On Mr. Roosevelt's programme it will grow from \$24,000 million on June 30, 1933, to \$32,000 million on June 30, 1935.

Is such a rapid increase in the debt prudent in the circumstances? Certain facts have to be borne in mind in answering this question. First, the increase in the debt is an integral part of the President's recovery programme. It is thus open to him to argue that, if his recovery measures succeed, national income will rise and provide the funds from which the increased annual debt charge of approximately \$230 million will be met. National income was \$85,000 million in 1928. It fell to \$40,000 million in the low point of the depression early in 1933, and has recovered substantially since. If the President restores a level of

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prices and a measure of economic activity that furnish a national income of \$65,000 million, he may well consider that he has not expanded the debt beyond the capacity of the country to pay.

In the second place, he may point to the fact that his emergency public works and relief expenditure, are, for the time being, supplanting the expenditures that normally were undertaken by States and municipalities. If they resume their borrowing activities, the Federal Government can automatically withdraw from the field of public works. Finally, a substantial part of the emergency programme is for purchasing bank preferred stock, and re-financing mortgages. With moderate recovery, the assets should provide a large percentage of the debt charge on this part of the public debt created by the recovery programme.

It is perhaps relevant to draw on Australian experience. With a moderate recovery of national income in 1932 and 1933, the Commonwealth budget showed a substantial surplus, and taxation to the amount of £5.5 million was remitted, while a restoration of expenditure to the extent of nearly £1.5 million was possible. It is true that the State budgets were out of balance by an amount slightly below the annual contribution to the sinking funds. But the crisis policy of Australia produced a floating debt of £80 million, the interest on which has to be met out of the normal budget expenditure. On the wealth and population standard of the United States, this £80 million would be equivalent to between \$7,000 million and \$8,000 million. Viewed in this light the President's emergency expenditures are not so alarming as they seem at first sight.

III. CRITICISMS AND REFLECTIONS

THE immediate problem of financing the emergency expenditure has raised considerable doubts as to the ultimate success of the programme itself. With a fluctuating currency and a large budget deficit, the bond market

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tends to weaken. In January, United States bonds had an effective rate of interest of about $3\frac{1}{2}$ per cent., and all long-term interest rates were high. In these circumstances the President could not contemplate long-term borrowing. He has therefore been forced to resort to an increase in the floating debt as the principal method for financing his programme. The situation has, however, been altered by his more recent exchange policy, which brought about a reduction of the New York "bank rate," and by the increasing confidence of investors in the United States that long-term rates of interest will fall. He now has power to increase the supply of funds on the market, and thus to force down interest rates.

Here again the experience of Australia in a much more limited field is reassuring, and seems likely to repeat itself in the United States. Unfortunately there does not seem to be sufficient attention given in the United States to the joint problems of lower interest rates and increased private investment. It now seems certain that a substantial fall in long-term interest rates is under way, but the question of new investment is by no means resolved. Apart from the normal lag in the recovery of investment, there is the special influence of the new Securities Act. Like other parts of the President's programme, this Act is to a large extent a much needed long-term reconstruction measure. New issues of securities amounted to \$10,000 million in 1929. They fell to \$644 million in 1932, and to \$356 million for the first eight months of 1933. This demonstrates the importance of securing a recovery in investment. While under-writers are uncertain as to their liabilities under the Securities Act, the latter may well be a deterrent to a revival of the new capital market.

There is another part of the President's programme that is rightly considered to have impeded recovery. Critics have perhaps devoted too much attention to the effects of N.R.A. in raising costs. They are, however, drawing attention to a fundamental issue involved in any plan for

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promoting recovery from a serious depression. It is true that the object of recovery measures must be to raise prices, but care should be taken to specify the particular prices that it is desired to raise. These are the prices of raw materials, mostly primary products. In a depression these prices fall much more seriously than other prices, and the disparity between primary and secondary prices is one of the most important problems to be solved by the sponsors of a recovery plan. Unfortunately, in the "ballyhoo" that was started by General Johnson in support of N.R.A., and to some extent encouraged by the President himself, indiscriminate arguments about price-raising were employed. The result was a rise in the wrong price level. For example, an index of department store sales showed that selling prices rose from 69.6 in March, 1933, to 88 on December 1 in the same year. Though dollar sales were up in December, 1933, compared with December, 1932, the sales adjusted for price changes (that is to say, the estimated volume) were down from 83 to 77. Again, we may quote the experience of farmers, who found their prices raised by 36 per cent. between March and December, 1933, while the prices of the products they purchase had gone up by 18 per cent. The recovery plan had thus not contributed very greatly to removing the disparity between their costs and prices. This emphasis on the wrong price level was indeed a good example of too much devotion to the fallacy that recovery can be secured by raising the incomes of the people in work rather than by adding new people to industry. It is from the new employment offered that the expansion of spending power will come. As spending power increases from this cause, the price of raw materials will rise without any great increase in the price of secondary commodities. It was an integral part of the Australian recovery plan to close the gap between primary and secondary prices in this way.

The policy of raising internal prices could not fail to interact with the external value of the dollar. The Presi-

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dent seems to have started on the assumption that a strong currency is a handicap to recovery. In a depression, when investment is languishing and floating funds seek refuge in strong currencies, the countries that become the repository of these funds may well complain that they suffer from an embarrassment of riches. The race for liquidity sets in motion strong deflationary forces. The effort to maintain convertibility into gold destroys all chance of a constructive credit policy. In driving the United States off gold, the President opened the door for an enlightened credit policy. He also raised his raw material prices considerably and swiftly. An index of the prices of twelve "international commodities" (wheat, cotton, tobacco, cocoa, coffee, tea, lard, silk, copper, tin, rubber and raw sugar) showed a rise from 100 on February 28, 1933, to 152 on January 2, 1934. Its high point was reached at 188 on July 18. This rise largely reflects the depreciation of the dollar. It is often argued that depreciation cannot be effective in the United States because the proportion of domestic commerce to foreign commerce is so great. There is certainly a vast difference between the situation in the United States and that in Australia, where export production is to a large extent the controlling factor in the internal economy. But the argument is not conclusive for the following reasons :—

1. The rise in the prices of exportable foodstuffs and raw materials gives relief where it is most needed.
2. The rise in the prices of imported goods does not raise real costs to the farmer or producers generally, because all costs do not rise proportionately.
3. Detaching the anchor from gold leaves the banks free to chart a course that avoids further deflation and stimulates enterprise.
4. Ultimate stabilisation takes place at a higher level than is otherwise possible.

For these reasons the President's gold policy may be commended. His task is mainly an internal one. He has to restore enterprise without the tedious business of a

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wholesale writing down of debts. The commodity dollar is his main solution. For the moment this means a dollar worth much less in gold than the old dollar. If the strength of the dollar is too great because the United States is a creditor country, the logical course is to weaken the dollar. This can be done by deliberate control of the exchange rate *on gold* and by inflation behind the undervalued dollar. Provided that the inflation is active and determined, the depreciation of the dollar can be successfully maintained. This inflation is to be accomplished by (a) public works, (b) the re-financing of debt on better lines and (c) the expansion of bank reserves through the operations of the exchange equalisation fund. But the inflation must be active. Half measures will not suffice. Apart from psychological or political fears, as we like to call them, the President's inflationary policy cannot injure the outside world. By cheapening the currency of the world's greatest creditor and promoting internal prosperity he is, indeed, exercising a constructive influence.

In a comparatively short period of twelve months the President has succeeded in depreciating the dollar to its new low level. If he wishes to make this depreciation effective in promoting internal recovery and in assuring recovery abroad, he must proceed with internal inflation to the point at which the dollar is no longer undervalued. At this point there is no competitive currency depreciation. The President indeed may well claim that he did not desire to have competitive currency depreciation. He was interested in lowering the gold content of his currency. If this gave him an exchange rate that favoured United States exports compared with the exports of other countries, it would be open to the other countries to move their own exchanges to a point at which the advantage was destroyed. This, in fact, is what has happened to the pound. With the price of gold in London rising, and the pound standing near its former parity with the dollar, the trade relations of Great Britain and the United States return to their old

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basis. The President could, of course, have waited to depreciate his dollar until his spending programme had been effective in raising prices, but it takes time to create the organisation necessary, and there was an impatient demand in the United States for a higher price of gold. He therefore pursued the policy of depreciating the dollar in terms of gold during the interim period while he was building up his spending organisation. The two parts of the programme may thus be considered to have gone hand in hand. They should lead to cheap money and to a recovery in investment, if other obstacles can be removed. Great Britain has consistently pursued a policy of cheap money, and sterling has depreciated against gold to practically the same extent as the dollar. But Great Britain has not embarked upon a heavy spending programme. If she did, there can be little doubt that British and American policy together would exercise a powerful influence in promoting trade recovery.

NORTHERN IRELAND AND PARTITION

I. THIRTEEN YEARS AGO

THE Imperial Parliament's attempt to solve the Irish problem in 1920* was a political experiment. In the south it failed, and now, at the end of thirteen to fourteen years, it is perhaps worth while to consider how far it has succeeded in the north. It had a good chance of success there, for the scheme had already been accepted by the Ulster Unionist party, who had an imposing majority in Northern Ireland. It was, for them, Home Rule with a difference. Complete autonomy was granted in all internal affairs, but there was reserved to the Imperial Government the imposition and the collection of customs, excise and income tax, and the control of the post office. Hence in these important respects Northern Ireland remained a part of the United Kingdom, and for this reason retained its representation in the Imperial House of Commons—a principal recommendation of the scheme to the Ulster Unionist stalwart.

It was evident that the scheme was regarded as a temporary measure, and that it was hoped and expected by its authors that with time and opportunity North and South would sink their differences and come together. The bridge was provided in the shape of a Council of Ireland, to be elected by the members of the northern and southern Parliaments. Northern Ireland built her end, but the

* For a description of the Government of Ireland Act 1920 and of the way in which it was adopted in Northern Ireland and rejected in the rest of the country, see *THE ROUND TABLE*, No. 43, June 1921, p. 507.

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southern Parliament was stillborn, and the bridge was never completed. A further attempt to get rid of partition was made in the Act that implemented the Irish Treaty. The Irish Free State, as then constituted, comprised the whole of Ireland, but Northern Ireland was given the right to opt itself out, and it lost no time in doing so. Since then the removal of the boundary in Ireland has been, at one time at least, the expressed policy of the British Labour party, and it is an open secret that the Free State embarked on its economic war with Great Britain with the same end in view. It is therefore interesting to enquire whether there are any signs of change in the attitude of the Six Counties towards partition.

If it was the opinion of experienced politicians in Great Britain that Northern Ireland would not long be able to maintain its status as an independent entity, that was also the hope of the Ulster Nationalists and the foreboding of many Ulster Unionists. Many circumstances combined to favour such a view. It was doubtful whether the area and population of the Six Counties were sufficient to justify the establishment of all the machinery of parliament, of government and of a civil service, and whether the resources of a small and comparatively poor State would not be overtaxed in order to support them. There was in the area but one large city, Belfast, inhabited by a full third of the entire population,* and there was therefore a natural fear that the new Government, when it became established there, would be so much under the influence of the metropolis that its policy would be in the main dictated by the city, to the neglect of the interests of the rest of the province.

There were other considerations. It was evident not only that the British Cabinet would sooner or later grant Home Rule to Southern Ireland, but also that if the grant was to be acceptable it must include the fiscal auto-

* The population of Northern Ireland is given in the 1926 Census as 1,256,561, that of Belfast as 415,607.

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mony denied to the North. The imaginary line of the boundary would then become a real barrier, and trade between North and South would be seriously hampered. This expectation was soon to be realised. One of the first acts of the Free State after its establishment was to impose a heavy tariff on most of the common articles of consumption, with the result that the consignments of clothes, boots, groceries and tinned goods that were formerly sent from Belfast and Londonderry to all parts of Ireland now no longer cross the border. A few firms had the foresight to establish branches in the Free State and have so been able to evade the restrictions, but speaking generally the distributing trade from the North to the South has gone. Further, the Free State, freed from the whole burden of war debt, was able to start its career with an income tax much lower than the British income tax paid by the Ulsterman. The anticipation, still more the realisation of these financial drawbacks of partition, caused many to prophesy that the hard-headed Northerner would soon reconsider his position in regard to the South.

Before these forecasts had materialised, however, there was further criticism. The new Parliament was in the main composed of inexperienced members, and the abstention of the Nationalists left the Government without the salutary check of a real Opposition. The members of the Cabinet were, with two exceptions, new to office and to the business of administration, and the untried team did not lack detractors, among both friends and foes.

But whatever the Mr. Croakers might say or think, the new Government of Northern Ireland was based on two very solid foundations. One of them was the Unionist man in the street, who was prepared to take any risks and to support any Northern Government so long as it maintained the link with Great Britain, and so long as it stood between him and his lifelong bogey, a Home Rule Parliament in Dublin. The other was the Prime Minister, Lord Craigavon, as he now is, James Craig, as he then was

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and always will be in Ulster. He possessed and still possesses the confidence of every member of his party. Some might think him narrow, hidebound, reactionary, but no one could deny that the passion of his life was Ulster, and that his passionate Unionism was the expression of his conviction that union with Great Britain best served the interests of his native province. He had the gift of clear and unmistakable speech, the outcome of equally clear and unmistakable principles and conclusions. His singleness of purpose and his steady common sense gave him an authority over his followers that enabled him at once to restrain the hotheads and to encourage the faint-hearted. Many years at Westminster both on the Ministerial benches and in Opposition had made him a master of parliamentary procedure and tactics, and his capacity as an administrator had been proved at the Admiralty and in the Ministry of Pensions. A Government and a Parliament of novices could have had no better mentor.

One might sum up the situation when the Northern Government began its task by saying that while the Nationalist minority practically refused it recognition, the Unionist majority accepted it, though with some misgivings as to the outcome. Have the events of the succeeding years altered that situation?

II. CHANGES SINCE 1921

THE most important change that has taken place politically has been the establishment of the Irish Free State. That event had been preceded by years of violence and disorder, the period known in the South as the Irish Civil War. The accounts of that campaign that the Northern Unionist read had not impressed him with any admiration for its heroes, and when the war was carried through the North and into Belfast in 1920-21 his first-hand experience confirmed his opinion that Sinn Féin military tactics were merely another name for organised

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murder. He was not prepared to condone the acts either of the leaders or of their subordinates, and when those leaders were set the task of governing the newly formed Free State he awaited with somewhat grim expectancy their essay at the restoration of order in the South. He had to admit and even to admire the courage and resolution with which rebellious and turbulent factions were suppressed, and peace and settled government were established. In no long time he had to allow both initiative and ideas to the rulers of the Free State, though he regarded some of their economic measures as unsound, and others as directly levelled against himself. He saw with pleasure that Protestants who held high office in the law and in the civil service had been confirmed in their appointments. But as year after year the Free State became more settled, he noted with some uneasiness that one high Protestant official after another was retiring, and that the Protestant population of the South was dwindling rapidly. He did not like to see the Sinn Fein tricolour replace the traditional green of Ireland. He failed to understand why the "Soldiers' Song" should be the national anthem of a country with so many glorious melodies of its own. It offended his sense of the fitness of things that the King's health was no longer the first toast at public functions. These were small things, but each of them meant a good deal to him, and while he watched events in the South with interest he was not attracted. When Mr. de Valera came into power he was frankly puzzled. He had seen the Irish Free State obtain a measure of autonomy that would have more than satisfied every Home Rule leader for the past century. He had seen an Irish Government set up without interference from Great Britain, and neighbourly, even friendly, relations established between the two countries. It seemed to him that the tenuous suzerainty still held by the Crown need not have offended the susceptibilities of the most ardent Nationalist. Mr. de Valera's victory could only mean that

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the antipathy of the majority in Southern Ireland to Great Britain was such that not even a shred of the British connection could be endured. And he asked himself—he is still asking—"In a State so avowedly hostile to everything British, what would be the place and what would be the lot of a community whose political watchword is loyalty to the King and the Union Jack?" Yet Mr. de Valera kept declaring that he would never be satisfied until the North was brought in.

If Mr. de Valera's politics are little to the taste of the Northern Unionist, his economic policy is even more displeasing. Nor does the Northerner see much to hope for should the new party, with General O'Duffy at its head, ever attain power. So far as he can make out, the General differs from Mr. de Valera on one point only. The present Free State Government would gladly cut the painter at once. General O'Duffy prefers to wait until the sea is calmer and land is in sight. Both are agreed on one point—Northern Ireland must be in the boat; and the Northern Unionist wants to know what business he has in that galley.

Perhaps the results of the general election held last November for the fourth Parliament of Northern Ireland best show how little the sentiment of the province has altered, and how strong is the support of the Unionist Government. An absolute majority for the Government was returned unopposed (27 out of 52 members), and in this number were included the Prime Minister and every member of the Cabinet. The final result was that the Government has a majority of 36 in a house of 52. Even this does not represent the full strength of Unionism, for three of the Opposition are returned as Independent Unionists.

Let us now consider the Nationalist minority. It would be equally correct to speak of the Catholic minority, for Catholic and Nationalist, Protestant and Unionist, are so nearly interchangeable terms in Northern Ireland that

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party organisers seldom enquire after a voter's political beliefs. A religious census gives a sufficiently accurate forecast of the poll.

To the mind of the Irish Nationalist the 1920 Act was a grim travesty of the Judgment of Solomon. The child had first been cut in two, and then offered to the claimants. Northern Ireland had proved her claim spurious by accepting her portion. Southern Ireland had shown that she was indeed Ireland by refusing to be a party to the partition.

The Northern Nationalist fully shared this view, and to mark his disapproval refused to have part or lot in the Northern Parliament, giving to the Northern Government no more than a sullen and forced obedience. To his mind the situation had altered only for the worse. Under the Union, with the country administered from Dublin Castle, there was at least the hope that a sympathetic Ministry might be in power at Westminster, and that benefits, both material and moral, might be gained. The composition of the population of the new province left him no room for illusion. Both government and administration must for years, probably for generations, be in the hands of his secular and hereditary opponents, and he knew that the largest and most powerful section of that party was avowedly antagonistic to his religion, and that if its voice was listened to in high places, Roman Catholic claims, as such, would at best get even-handed justice. He could foresee a further grievance. Every Irishman has a natural liking for a government job. Under the old régime it had been an unwritten law that patronage should be shared, as far as possible, equally between Catholic and Protestant. But he well knew that, while the British Government had observed this rule, it was far otherwise with the bodies to whom Irish local government was entrusted. There every appointment was canvassed on party lines, and not even a rate collector could hope to get a job unless in religion and in politics he was in agreement with the

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majority of the Board. It was only too much to be feared that the new Government would be guided by the same principle, and, even if it were not, that by the time the claims of its own supporters had been satisfied there would be little left for a Catholic opponent.

The lapse of years has done little to improve matters from his standpoint. When the new State was formed, the North had been free from first-class sectarian riots for many years. Within a few months I.R.A. gunmen were quartered on the Catholics, who were often most unwilling hosts, and the Northern offensive began. The first shots blew all the smouldering hatreds and enmities into flame, and unscrupulous partisans on both sides indulged in an orgy of violence. When the outbreak was finally quelled, sectarian and party passion had been raised to white heat, and the Catholic smarted under the belief, whether true or not, that in its measures of repression the Government had discriminated against its opponents, and had condoned reprisals carried out by its own supporters.

In 1920 the wish was father to the belief of the Northern Catholics that the new province would not subsist for long, and their hopes were raised again and again. The establishment of the Free State, the Boundary Commission, the achievement of the Shannon scheme, the return of Mr. de Valera were all events that might well shake the position of the Unionist majority and lead to the All-Ireland State so much desired. These hopes often renewed have kept the Ulster Catholic from accepting the situation in the North. He is still struggling to get free from an alien domination, he is still not simply an opponent of the Government but a would-be subverter of the constitution. There is a certain amount of evidence that a change is taking place in the attitude of a section of the Catholic population, but the majority are bitterly opposed to the North of Ireland State and to its existence as a separate entity.

The position thus taken up by the minority should be

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borne in mind in passing judgment on the charge of religious intolerance so often brought against the Northern Government. There is of course no intolerance in the sense of interference with the exercise of religion, and Catholic chapel schools are given the same State and rate aid as that given to Protestant church schools. That religion is not a bar to employment is shown by the fact that the first Lord Chief Justice of Northern Ireland was a Catholic, that the present permanent head of the Education Department is a Catholic, and that his immediate predecessor was also a Catholic. But the rank and file of the government services are certainly in the main Protestant, and when comment is made on this fact the answer given more or less plainly is "Why bring an enemy into the household, when so many friends are unemployed?"

In the first general election, which was held under proportional representation and therefore gave a fair picture of the state of parties in the province at that time, Sinn Feiners and Nationalists polled one-third of the votes cast. A minority of this size should be able to exercise a considerable influence, to command respect, and if need be to extort consideration. It suffers, however, from two of the most fatal misfortunes that can befall a party. It is hopelessly divided, into old Constitutional Nationalists, Sinn Feiners, de Valera-ites, Republicans and Catholic Labour; and it has not yet found a leader strong enough to dominate and weld into one the warring factions. In the first general election the minority polled a third of the votes, but gained less than a fourth of the seats. In the election last November most of the contests in Catholic constituencies were between Catholic candidates of different factions.

The Nationalist members only decided to take their seats in the Northern Parliament in 1925. Among them was Mr. Joseph Devlin, a politician and parliamentarian of long experience and of consummate skill, a public speaker who had been heard with applause in the Old and the New

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Worlds, a public man who had earned the gratitude of all sections of the community in Ulster by his many services as a member of Parliament and by his benefactions as a private citizen. His death, which took place while this article was being written, evoked expressions of deep and sincere regret from all sides in Ireland, and at his funeral Northern Ministers walked side by side with Ministers and ex-Ministers from the Free State, in common mourning for the loss. And yet neither in the 1925 nor in the 1929 Parliament did the Nationalists ever acknowledge an official leader or appoint a whip.

Is the minority becoming reconciled to the Northern Government? That question no one can answer. Officially the answer is, of course, a furious denial, but many Catholics seem to realise that they enjoy at least peace and quiet, and that the social services are as complete as they are in England, and better than those in the Free State. At any rate the Catholic population has not diminished, and many good judges say that it is steadily increasing by immigration from across the border.

A word must be said about Labour. It is a proof of the strength of Unionist sentiment that in an industrial city like Belfast, with strong trade unions, socialist Labour holds only two seats out of 16, and those in constituencies with a large Catholic vote. There is a flourishing Unionist Labour organisation, but that is a branch of the main Unionist party, and is looked upon as a mere counterfeit by the socialist Labour party in Ulster, whose affinities are with Clydeside. Even in trade unionism Belfast holds aloof from Dublin, and has its affiliations with Great Britain, although such well-known Dublin Labour leaders as Connolly and Larkin hailed originally from Belfast.

What is to be said of the important subject of finance? Under the 1920 Act the Government at Westminster retained the power of imposing and collecting all the important branches of revenue—customs, excise and income tax. From the sum so collected there is returned to the

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Northern Government a sum—agreed between the two Treasuries—sufficient to meet the cost of the services for which it is responsible, the balance being the contribution of Northern Ireland to Imperial services. In the ten years beginning with 1922-3 Northern Ireland's contribution to Imperial funds was over £24 million ; but it fell from six and a half million in 1922-23 to £298,000 in 1931-32, and that represents fairly closely the fall in the total revenues of the province.*

During the war, Ulster had her full share of sham prosperity. When the war ended everyone thought that the boom must last. Her shipyards would still be working overtime to replace the shipping destroyed in the submarine campaign, and her looms, which had been fully occupied in weaving aeroplane linen, would be running day and night to supply America with the goods she had not been able to get for years. Unfortunately, by the time the province of Northern Ireland had started on its career, it was becoming evident that there were more ships afloat than the shipping companies could afford to run, and that America, having learned to use substitutes, no longer wanted linen. Thus two principal industries were almost out of action, and when the slump came, no part of the United Kingdom suffered more than Ulster. Not only was there an immediate and serious fall in revenue, but unemployment became a very heavy charge on the State, which was responsible for its own unemployment insurance. Since then, the liability has been shared with Great Britain, and an equalisation payment falls to be made to the country whose ratio of unemployment is highest ; but the burden has not been thereby greatly lightened, although for some years Northern Ireland has had the unenviable distinction of receiving payment.

There are some welcome signs of a turn in the tide. One of the two great Belfast shipyards launched two ships

* The figures of income and expenditure since Northern Ireland received Home Rule are appended.

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last year, and so attained the position of second in the list of British ship-builders ! Within the last few weeks, useful orders have been placed with the other, and its skeleton office staff is being brought up to strength, the first step towards a return of activity. The demand for linen has been increasing, and many of the mills and factories are working to full capacity, though not perhaps on a very large margin of profit.* The figures of unemployment have improved during the last year, but are still painfully high.†

Agriculture, however, has long been the staple industry of Northern Ireland. The Ulster farm is small, a hundred acres being regarded as a large holding. The Ulster farmer, if he is to make a living, must have more than one string to his bow, and he finds a market in England for much of his varied farm produce. The Northern Ministry of Agriculture has helped him, sometimes against his will, for he is ultra-conservative in his methods. It has enforced marketing regulations, and has made him attend to the standardisation of his products with good results financially. Like farmers everywhere, he has been having a hard struggle to make ends meet, but there are signs of a new hope in agriculture, and, what is still better, of a more progressive spirit.

III. HAS NORTHERN HOME RULE SUCCEEDED ?

THIS article set out to consider whether the experiment of 1920 had succeeded. The answer depends on what the experimenters hoped it would achieve. If it was intended to bring North and South together, it has completely failed. If it was intended to fuse Unionist with Nationalist in the North, it has done practically nothing. If the object was to create a Unionist reservation, it has had a full measure of success.

* The Northern Ireland trade statistics since 1924 are appended.

† The total of registered unemployed fell from 76,360 in January 1933, to 68,139 a year later, but the latter figure still represented 26.5 per cent. of insured workpeople.

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But there is another side to the experiment. How has the devolution of power worked? On the whole, very well. Since the Government was first set up, practically the same Ministers have remained in charge of their departments. That has been a great advantage in a country that dislikes change, and asks above all things for settled conditions so that a man can get on with his job. The Northerner knows exactly what he may expect from the Minister of Labour, or of Commerce, or of Home Affairs. So the mere fact that the Ministers have been in office for thirteen years is a strong argument in favour of continuing them; in fact it is doubtful whether the man in the street could imagine an alternative Ministry. Legislation has been sympathetic to the needs and the prejudices of the province, and has made very definite advances on pre-existing law. One might cite the Education Act, the Licensing Act, the Motor Traffic Acts and others as examples. Law and order have been well preserved, and an efficient police force has been established to take the place of the old R.I.C. There have been, unfortunately, a few outbursts of party violence, but they were local, and were soon quelled.

The Prime Minister, when he first took office, announced his intention of keeping step with Great Britain in social services, and although the Northerner grumbles at the cost he realises that the promise has been kept. The Ulster worker is as well off in that respect as his neighbour in Great Britain. The employer, the business man and the farmer have at least ready access to the government departments in order to lay their wants and to air their grievances before them, while a trade dispute always finds the Minister of Labour willing to act as mediator.

If it were suggested to the Northern Unionist that he was paying dearly for all these privileges, he would probably agree. Like every private citizen in every country in the world, he would condemn the cost of administration as grossly extravagant, and denounce the growing army of officials and the bloated salaries of government servants.

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He might even quote the very narrow surplus of the Northern budget, and express doubt as to how long the province would be able to support its burdens. But he would point out with grim satisfaction that a settled government of his own of thirteen years standing could not be lightly set aside, and that every year of its unquestioned power has rendered it more impossible for the existing status of Northern Ireland to be disturbed except by and with the consent of her own Parliament. With these reflections he would conclude that the game was worth the candle.

Ulster.

February 1934.

APPENDIX

I. TRADE STATISTICS OF NORTHERN IRELAND (in £ million)

Year.	Imports.	Exports.	Total Trade.
1924	69	65	134
1925	62	60	122
1926	57	54	111
1927	60	56	116
1928	58	56	114
1929	61	60	121
1930	57	54	111
1931	50	46	96
1932	46	43	89

N.B.—In 1932, the imports of the Irish Free State amounted to £43 million and her exports to £27 million, a total of £70 million.

II. INCOME AND EXPENDITURE OF NORTHERN IRELAND FROM 1923-1933

Year.	Income (Transferred and Gross Residuary Share).	Expenditure (Transferred and Reserved Services).	Imperial Contribution to Army, Navy, War Debt, etc.
1922-23	£17,600,378	£11,050,025	£6,685,645
1923-24	14,550,949	9,899,232	4,517,879
1924-25	13,110,854	9,726,076	3,175,000
1925-26	12,780,601	10,184,318	2,275,000
1926-27	11,318,272	10,021,320	1,350,000
1927-28	10,911,111	9,478,870	1,450,000
1928-29	11,230,686	10,030,292	1,175,000
1929-30	11,189,963	10,229,263	855,000
1930-31	12,335,851	11,719,203	545,000
1931-32	12,000,517	11,499,331	298,000
1932-33	12,116,407*	12,182,976*	273,000*

* Provisional.

THE UNITED STATES : RECOVERY AND REFORM

(From an American correspondent who, unlike the Australian economist whose article appears on another page, is not in sympathy with the tendencies of the President's experiment.)

I

IN the first two years of the depression, it was possible to write of it largely in terms of statistics. Prices had declined to such and such a point. The consequences were thus and so. Ordinary dinner-table conversation in those American families which were still above want concerned itself with the individual aspects of these minor social and economic changes. The Smiths had resigned from all their clubs. The Joneses were doing their own housework. Robinson had lost his job and was trying to sell Christmas cards on a commission.

After the collapse of the gold standard in England in 1931, the public became more conscious of the magnitude of the world's ills and the alarming inadequacy of institutions and economic mechanisms that had been accepted without question. In the last months of Hoover and the first weeks of Roosevelt, public attention was more and more directed to the rival schools of economic thinking. There were the bitter-end deflationists ; there were inflationists of various degrees and cults. There was gold ; there was managed currency. Dinner tables took cognizance of currency and monetary questions. What would have been considered a few years ago fairly abstruse problems in theoretical economics were brought down to the level of the family meal. The progress of the recovery program of the

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Roosevelt Administration has now brought us to an examination of all the assumptions that underlie our social, economic and political life. This is not to most of us a congenial task. It is generally disagreeable to have to do any particular thinking about abstract questions. But here we are to-day, obviously on the verge of an abyss, casting a glance, now at the profundity of the abyss, which we had never realized was a part of our landscape, and now at the forces that have pushed us to its verge.

Most men take little interest in the origin of the physical universe, about which it seems now too late to take any active steps. And the baffling problem as to whether the universe is now contracting, expanding, or merely static they are willing to leave to the professional astronomer or physicist. All they ask is that something like the present range of temperatures and the present precarious balance of chemical elements shall endure for the next generation or two, in order to enable themselves and the members of their immediate families to fulfil the ordinary human destiny. In the same way most men are prone to regard the social order. So long as they can gain the necessities of existence, be free from outrageous tyranny, and have enough economic security to look ahead from one year to another, they will carry on without being vastly concerned over the name, the origin, or the motivating forces of the society in which they live. History shows abundantly that even the most obvious and glaring social injustices are frequently slow to stir public opinion and are often unconscionably long in getting remedied.

But the New Deal has stirred us to unwonted self-consciousness and unwonted self-examination. It is now obvious that our whole social, political and economic order was in 1929 incomparably more vulnerable than ordinary men supposed. It is also obvious that the infection which beset us in that year was a fairly familiar type of falling price bacillus in a particularly virulent form. Therefore, say our publicists, let us consider how in the future we can

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do two things : first, build up the resisting power of our society ; second, check infections caused by the falling price bacillus.

It is now a commonplace to observe that President Roosevelt's recovery program is a compound of two elements, a simple recovery element designed to end the depression, and hence necessarily temporary in character, and a reform element designed to give our populace a new and better "deal" and hence permanent in character. This observation is commonplace, but it is extremely important. If this point is not grasped, the American scene, which is at best obscure, will seem hopelessly unintelligible, and the American people will appear more senseless and quixotic than in fact they are ; because the things that promote recovery may not promote reform, and vice versa, and because what Mr. Maynard Keynes in his New Year's open letter to President Roosevelt calls the "order of urgencies" of different measures is not the same seen from a recovery standpoint as seen from a reform standpoint.

What is the goal of reform under the New Deal ? It is the "redistribution of wealth in the interests of social justice." Everybody is theoretically in favour of this. But how is it to be done ? What is social justice ? Social justice in the definition of new dealers would appear to be a new species of egalitarianism, spreading social and economic privilege more evenly over the entire populace—bringing "forgotten men" into line with remembered men. It is a phase of what Señor Ortega y Gasset in his notable book calls the Revolt of the Masses.

One may infer that many of the ideas for the New Deal emanated from the book of Mr. Stuart Chase, entitled *A New Deal*, and first published in August, 1932. Mr. Chase would doubtless acknowledge a heavy indebtedness to writers like Mr. Maynard Keynes, and they in turn to others. But this is not the place to study the origins of the new ideology.

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The program of the New Deal involves the creation of new buying power by an economy of high wages. It involves an effort by various devices to restore the balance between agriculture and industry. It involves a greater emphasis on consumption goods, which are brought into existence by men's spendings, and a lessened emphasis on producers' goods, which are brought into existence by men's savings. It is aimed at individualism and it loves to make fun of *laissez faire*. It recognizes that we have gotten no adequate emancipation, no real economic freedom from all our improved technology. Technology, Mr. Chase vividly suggests, "is still riding with Hell under one front wheel and Utopia under the other." "If we could eliminate the gyrations of those who are trying to become wealthy, we could abolish poverty and double the standard of living overnight."

Order, discipline, the consciousness of definite social aim are needed to insure a dependable flow of goods from the earth to the ultimate consumer, but when that discipline—and it is largely one of engineering—is established, economic activity, with its four to six hours of work a day, becomes, if not a minor, at least a subordinate consideration. More important will be the problem of how to live; how to use fruitfully one's leisure time; how to improve the biological stock; how to educate; how to love and marry without the emotional miseries which now beset us; how to get the most out of life. These are the real problems of a civilized people who have yoked a billion of mechanical horsepower.

As means to this end the New Deal appears to contemplate a "managed" currency, higher wages, shorter working hours, elaborate programs of public works, long-term government budgeting, with no attempt at balance before the fiscal year beginning June 30, 1935, and economic planning.

Books have been written about these ideas—not all of them since 1929. More books will be written about them. They afford an inexhaustible basis of discussion. For the purposes of this article it will be enough to stress two vital points: first, that the value of these new or revived concep-

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tions—attractive as they may be—can be demonstrated only by experiment; and second, that by turning the emphasis from *labor* and the creation of capital by *savings*, to *leisure* and the necessity for *spending*, they shift drastically and most significantly the center of gravity of what is left of our nineteenth-century code of morals. This is not the first time that the world has had occasion to reconsider well-established ideas of morality, but it is a little interesting to observe that, while the revision of nineteenth-century morals has been in many sexual and social aspects in the direction of *laissez faire*, in economics it is in the other direction.

II

FROM the standpoint of traditional capitalistic economics the New Deal is unorthodox in several particulars :

First, and most conspicuously, in its monetary policy. The successive stages of the monetary policy have been :

1. The voluntary departure from the gold standard in April, 1933, which, being wholly voluntary, bears only a superficial resemblance to the British departure from the gold standard in September, 1931.
2. The President's declaration at the London Conference (July, 1933) in favor of the "kind of a dollar which a generation hence will have the same purchasing power and debt-paying power as the dollar value we hope to attain in the near future," generally believed to be at the 1926 price level.
3. The systematic depreciation of the dollar in terms of gold by purchases of gold at steadily increasing prices. This course was proclaimed in the President's radio broadcast of October 22 as "a policy and not an expedient." "If we cannot raise prices one way, we will do it another."
4. The purchase until December 31, 1937, of newly-mined silver at a price well above the present market. This policy was announced on December 22. It is generally agreed that the plan has more significance politically than from a monetary standpoint. It is "doing something" for silver to please the mining States and will not materially broaden the currency base.
5. The stabilization or revaluation of the dollar at somewhere between fifty and sixty cents in terms of gold. This policy was announced on January 15, 1934, in a special message to Congress, in which the President sought legislation to take the monetary gold

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from the Federal Reserve banks and appropriate it to the Federal Treasury. This unusual course is justified by the Attorney-General of the United States as an exercise by the sovereign of its characteristic power of eminent domain ; but the pending Bill, which will have become a law before this article is in type, not only purports to fix the compensation for the expropriated gold, but fixes it in gold certificates, a form of warehouse receipt to be honored only when, as and if the Treasury feels like it. In other words, the Treasury takes the gold and gives the banks a sort of qualified IOU. The Reserve banks have been supposed to be immune from political influences. The pending Bill is a step away from economic planning by the Reserve Board in the direction of planning by the Secretary of the Treasury, a political officer. The Bill also provides for utilizing the gold "profit" from the hocus pocus of revaluation for the establishment of a two billion dollar stabilization fund, to be used in keeping the dollar in terms of foreign exchange down to a point below, possibly far below, what would appear to be its natural economic worth.

It is perhaps easy to over-emphasize the importance of the mere revaluation of the dollar in terms of gold. The child—one forbears a harsher word—was born in April. This is only the christening—even now only a partial and provisional christening.

The monetary policy has been so widely commented upon and by such eminent authorities that no attempt will here be made to analyse or criticise it on any economic ground. On the other hand, the political implications of the policy would seem to keep the President still aligned with the so-called soft money school of thought against the hard money school, with the debtors against the creditors (in those cases where debtors and creditors are distinguishable), and thus to revive the classical money controversies of the last four decades of the nineteenth century. It was this monetary policy which evoked the first sharp challenge to the New Deal from no less a spokesman than Al Smith, the former leader of the Democratic party, who spoke with all his old-time fervor. The newest monetary move is away from the so-called commodity dollar changed in gold content from day to day by the gyrations of the price index. In this respect, the monetary policy has perhaps become more conventional ; but this adventure in coin clipping, unprecedented in our history, is certain

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to be much discussed in the Congressional campaign this coming November, and in the Presidential campaign of 1936.

Second. The New Deal is unorthodox in respect to the National Industrial Recovery Act, which puts the expansion of wages and the consequent inflation of purchasing power before the enhancement of the capitalists' profits from which the wage is to be paid. The old practice was the reverse. Increasing profits to the capitalists ultimately permitted increased employment and higher wages. This is new recovery technique. It is also a bold, practical and constitutional departure. It says to the industrialists, "Before you divide any profits for yourselves, increase your pay roll by taking on new personnel and increasing hourly wages (not necessarily the weekly wage of any particular employee)." This is obviously an expropriation *pro tanto* of capital. It destroys freedom of contract. It enormously increases the cost of operation in many industries. Where those industries were operating at a profit, they may be able to operate at a lesser profit. But where the industry is operating at a loss or barely avoiding it, the provisions of the Act may be destructive of the enterprise in question. In general, small employers have found that the Act bears heavily upon them. But the economic consequences of the measure and the political reactions to it are perhaps less important to note than its actual derogation from the basic economic concept of *private industry based on profit*.

Third. Supplanting in large measure privately owned and privately operated industry by publicly owned and operated industry. This is brought about in a variety of ways. In the first place, the Securities Act, passed in the Spring of 1933, by imposing drastic personal liability on directors of enterprises that float new securities makes it impracticable to float new issues. Every director or partner of the issuer, every accountant, engineer or appraiser consenting to the use of his name, and every underwriter of the

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security incurs a risk of personal liabilities in amounts that may well be enormous. It is generally believed that this Act alone will prove inhibitive of new bids for capital. In the second place, industrial conditions are such that, quite apart from the provisions of the Securities Act, companies that might ordinarily attract capital from the hands of the investor can no longer do so. These concerns must, therefore, either languish for want of adequate capital or get loans from the Reconstruction Finance Corporation or other government agency. In the third place, the requirements of the government for capital are so prodigious that they virtually pre-empt the capital markets. With the government seeking to borrow no less than ten billion dollars in the next year, there is not much hope for re-financing by private corporate borrowers.

Fourth. The public works program, which in some cases enters fields heretofore occupied by private corporations, *e.g.*, generation of electrical power by the Tennessee Valley Authority, instead of by a public utility corporation under private management and subject only to public regulation. Other public works, while not theoretically inhibitive of private undertakings or directly competitive therewith, attract the laborer by wages higher in many cases than those obtainable in private industry. Mr. O. M. W. Sprague, who on November 21 resigned his post as adviser to the Treasury for the purpose of criticizing the recovery program, has particularly criticized this aspect of it.

It would doubtless be possible to multiply almost indefinitely instances of the substitution of government initiative and government operation for our traditional individualist economy and replacement of corporate credit by federal credit. Hand in hand with these drastic departures from orthodox capitalistic economy accomplished by legislation or executive order, there has sprung up a voluminous literature attacking the profit economy and the profit motive. A professor of philosophy has written a book

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in which he says that the profit economy is fated to pass away because the "basic motivation involved is too low for what we have come to expect of civilized life."

Professor Tugwell, the Assistant Secretary of Agriculture, is particularly good at the war cry against the profit motive.

It seems to me a mistake (he says) to provide islands of safety in a changing world to which some of us may retreat, clutching certain sterile goods, and especially that this retreat should be particularly designed for the protection of the gains which are got from the sabotage of recovery.

And those people who would have us crawl back to the old ideas, like a wounded animal to an abandoned den, misread the temper of the people as well as the intelligence of the present government. We are trying to show that heaped-up corporate surplus and the over-concentration of wealth are not the life of trade but the death of trade.

The comfort that such an inspiring message may carry to a sorely stricken people will readily be perceived. An effort is also being made to ascertain the meaning of some of Mr. Tugwell's major pronouncements. But his meaning at least is clear when he says : "We achieved revolution last November with the ballot. It was, in my opinion, the greatest revolution since the founding of our nation ; for we departed then, I think for good, from the dogmas of free competition and the theory that the least government is the best."

Mr. Raymond Moley, another ardent champion of the New Deal, who no longer has a government post but is now editing a magazine called *Today*, points out that the President has difficulty in finding competent or experienced subordinates among business and legal leaders, "because they were part of the political and economic system that brought us to this débâcle and are not in sympathy with the New Deal . . . In filling positions he (the President) must often choose between competence on the one side and efficiency on the other. Often he has to select people in whom there is more sympathy than competence." It is

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doubtful whether the President will feel grateful to Mr. Moley for that last remark.

These thinkers of the New Deal are prone to refer to the 1932 election as a "mandate of repudiation," evidently on the theory that on that occasion we repudiated, not merely Mr. Hoover and the depression, but the profit system and the profit motive, the whole idea of individual initiative, and indeed all the animating and motivating social and economic impulses that characterized our history down to March 4 last.

While President Roosevelt has not fully associated himself with these pronouncements, it is not always easy for the business man to divine whether, in the eye of Washington, his ambition to run his business at a profit is a base or a noble one. Men of undoubted virtue and acumen are puzzled. They do not know whether they are living in the earthy atmosphere of the profit motive, in the rare empyrean wherein Karl Marx reigns supreme, or in some strange and ambiguous stratosphere between the two, where human life has never heretofore existed.

To many of the President's numberless admirers he is not merely the greatest of the American Presidents. He is the first of our Presidents to grasp the social problems of his day and to have the energy and courage to recast society in the pattern inspired by noble and humane ideas. He has abolished child labor. He has abolished the sweat-shop. He is bringing us to a planned and ordered economy which can never collapse as did our economy in 1929, partly because it will be inherently less competitive and vulnerable, and partly because it will have a price structure that by "management" can guard against such disasters.

The critics of the New Deal and its leader have thus far been much more temperate and restrained than the admirers. The Republican party in particular has offered no concerted opposition to the President's program, and its leaders have for the most part abstained from criticism. By far the most outspoken dissent has come from Al Smith,

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whose challenge was in no uncertain terms. Writing in the *New Outlook* in November, he said :

If I must choose between the leaders of the past, with all the errors they have made and with all the selfishness they have been guilty of, and the inexperienced young college professors who hold no responsible public office but are perfectly ready to turn 130,000,000 Americans into guinea pigs for experimentation, I am going to be for the people who have made the country what it is. And I say this with full knowledge of the fact that there are many things in the old order of society which I should like to have changed and which I do not applaud or even condone.

Acquiescence in the New Deal has not so generally extended to its monetary policies. To these, economists, bankers and industrialists have been outspoken in their opposition. Also such important national organizations as the American Legion and the American Federation of Labor have officially taken a stand against inflation. But the country as a whole has been amazingly supine at the overthrow of its characteristic institutions.

III

IS the recovery program a success? Is the reform program a success? Who shall answer these inquiries? To the latter question it is obviously too early to make any answer. In the nature of things the answer is never likely to be unanimous. The new society, if we achieve one, may please some people better than the old. But it is purely experimental and the guinea pigs may die of ennui or fear or malnutrition before the experiment is over. Predictions are always rash, and have been peculiarly so in the last five years, but there would seem to be no great risk involved in foretelling more opposition to the New Deal in the future than there has been in the past.

The defect in the recovery achievement thus far has been the failure to attract men into the production of durable goods, such as building materials, furniture, locomotives, ships, machinery and the like. The following table will tell the story.

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INDEX FIGURES OF EMPLOYMENT.

		September, 1929.	September, 1933.
Food products	102.1	100.1
Cotton goods	.. ..	94	101.4
Boots and shoes	.. ..	99.2	84.3
Woollen goods	.. ..	97.4	102.8
Agricultural implements	.. ..	109.2	34.9
Structural iron works	.. ..	107.7	50.6
Railway cars	.. ..	86.5	21.9
Cement	.. ..	84.2	44
Bricks..	.. ..	87.3	34.4

The reason for these disparities is fairly obvious. The philosophy of the reform program stimulates consumers' goods, but not producers'. For the producers' goods we are dependent on savings and capital investment made by capital which feels confident and secure and reasonable in its expectation of return or profit. And producers' goods—heavy industry—ordinarily account for a very substantial proportion of our total employment.

A most interesting document, the report of the American Federation of Labor for the year 1933, shows that 1,800,000 out of work at the end of 1932 have been absorbed into industry and 4,600,000 into temporary work under some government agency, Civil Works Administration, Public Works Administration or Civilian Conservation Corps. The significance of these figures is that these emergency government agencies are taking two or three men for every one who goes into private industry. This is called priming the pump, but it is a question whether with such costly priming the well will not have run dry by the time we finish priming. At the end of the emergency government jobs, will the men drift into jobs with private employers or will they be left, jobless and embittered, the prey of politicians ?

Workers' income in our sixteen chief producing and distributing industries (continues the Labor Federation report) averaged \$20.53 a week in November, 1932, and \$20.56 in November, 1933. Mean-

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while, food prices are up 7 per cent. and prices of clothing and furnishings are higher by 21 per cent., so that workers' real buying power is considerably lower. Millions who got jobs during the year are better off, but those who had jobs at more than a minimum wage have lost ground.

. . . All these gains show progress, but we must not forget that in November (1933) 10,702,000 workers still had no industrial employment, that C.W.A. (Civil Works Administration) funds giving temporary work to 4,000,000 will be exhausted by February 15, that business is still 30 per cent. below normal, that the outlook is overshadowed by a danger which might destroy all progress made—inflation by fiat money.

And the report goes on to comment upon the fact that government initiative is superseding private initiative.

Already it has been decided to prolong the temporary employment given by the Civil Works Administration till May 1, and already there is a clamor for prolonging it still further. Hard cases make bad law, and hard times make bad economics. We are learning the truth of what our preceptors have taught us, that it is difficult to call a halt to inflation when it is once invoked. It takes a good skier to make a Christiania turn when descending an Alp.

If, as seems likely, the inconsistencies between the recovery program and the reform program become more conspicuous and more embarrassing as the months wear on, the President will have to decide whether to work with the industrialists, capitalists and bankers for recovery, and alienate the idealists and "liberals" who are pre-eminently interested in reform, or whether to risk all on the evangel of the new society, relying for success on old discontents and the fervor of the zealots for a new righteousness. The President is generally credited with being an adroit politician, but politicians fully as adroit as he have found it difficult to keep a footing on two galloping steeds which have no natural predilection for running in the same direction. The only thing certain is that we shall see what we shall see, and it will be interesting.

So much for the future. The plain facts are that with

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another month to run before the New Deal's first birthday, America is a nation altered almost beyond recognition. We have lost our monetary system, we have lost our individualist capitalism, we have abandoned the idea of freedom which lay about us at the birth of a nation "conceived in liberty," we have consented to the weakening of State and local government for the benefit of a central authoritarian State, we have done such violence to our eighteenth-century constitution that it seems doubtful how long we can maintain diplomatic relations with it, and we have taken a long step toward embracing a new and unfamiliar morality. Do we know what we have done? Do we like it, or are we just too bewildered to resist? Will there be a reaction? Do we mean anything now when we still sing to our "sweet land of liberty" and exhort God as the "author of liberty" to make our land be "bright with freedom's holy light," to "let freedom ring" "from every mountain side"? Have those conceptions lost their power? Does the right of property and contract, so carefully safeguarded by our constitution, really transgress more fundamental human rights? Is there any relationship between the end of *laissez faire* and the end we put just after the Armistice to *laissez boire*? One recalls that *laissez boire* didn't stay ended.

What is man and the son of man? Is he, as some writers aver, a highly socialized creature like the bee and the ant? Or is he, in the language of Spengler, a *Raubtier*, essentially a beast of prey? Or is he perhaps a bit of both, with disharmonious functions, forever to be kept in a precarious balance? Whatever he really is, we shall certainly not get anywhere in the long run by imagining that he is something else. It might be far better to muddle with society in the fine old Anglo-Saxon way than to plan it altogether wrong. Some of us at least question whether our national mentality is functioning a whit better today in the trough of the sea than it did five years ago on the crest of the wave, when admittedly it functioned deplorably.

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Business is definitely better, no doubt. Recovery has surely set in. Our days are full of hope ; but the hour is crucial, even ominous. Can we escape that curse upon mankind which compels it to live perpetually under the dominion of powerful illusions ?

United States of America.

February 1, 1934.

THE CHURCH IN THE THIRD REICH

I. THE HISTORICAL BACKGROUND

THE Reformation started in Germany. In it the dominating force was Martin Luther, the most powerful figure in modern church history, perhaps in the whole history of the Christian Church since the time of the Apostles. At that period Germany was a mere mosaic of independent States of various sizes, not even connected by a federal tie, and the rule was that the State took the religion of its lord.* The result was that most of the German churches conformed to the Confession of Augsburg, and are Lutheran to this day. Only a few, relatively speaking, accepted the Reformed or Calvinistic conception of the Reformation. The Reformed churches have always been strongest in the Rhineland near the Dutch frontier. In the course of the political evolution of Germany many of the small independent States were merged in larger ones. As a consequence, large States, such as Prussia and Baden, contain both Lutheran and Reformed churches, doctrinally strongly opposed to one another—at times indeed the conflict became alarming in its intensity. Such unity as there had been then ceased to exist among the Protestant churches, notwithstanding the fact that they had been State churches ever since the Reformation.

As the State had a great interest in the maintenance of unity among its Protestant churches, it tried to overcome their doctrinal and constitutional differences. The earliest attempt was in 1529, when Philip of Hessen summoned Luther and Zwingli to Marburg; but this effort to establish Protestant unity proved fruitless. The two great reformers separated stronger opponents than ever, especially

**Cujus regio ejus religio.*

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with regard to the doctrine of the Holy Sacrament. When, later on, after the early death of Zwingli in 1531, Calvin became the leader of the Reformed churches, the conflict was, if possible, more pronounced than ever, and it lasted for centuries. In the early nineteenth century, seeing that there was no hope of unity among the Protestant churches on spiritual issues, the King of Prussia and the Prince of Baden, who were autocrats in their own States as well as heads of their respective churches, brought about the union of the Lutheran and Reformed churches within their territories by force. All the churches accepted this union except a minority of the Lutherans in Prussia, who combined to form the Free Lutheran church of Prussia. The rising tide of liberalism helped to make this solution possible. As time went on, however, Prussia acquired new territories in which there were churches of the Reformed type, and these have maintained, at least to some extent, their separate identity until our own time.

This brief historical review will help to explain what follows. The situation to-day is that there are strong Lutheran churches, especially in Saxony, Württemberg, Bavaria and Mecklenburg; there are the so-called United churches in Prussia, Baden and central Germany; there are also Reformed churches scattered all over Germany, which still, however, look for leadership to the Rhineland church.

It is also necessary to remember a second historical aspect of the present position. The Protestant churches of Germany were State churches in the strict sense of the term; all their expenses were paid by the State, and the pastors were regarded as State officials. Moreover, contrary to what happened in Scandinavia, where whole nations, including the bishops, turned Protestant, no German Roman Catholic bishop seceded to the Protestant Church. It was in this way that the Princes became *summi episcopi* and, as such, exercised supreme authority over the Church, though in actual practice specially

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nominated authorities, consisting of both pastors and laymen, administered the Church in the name of their Prince-Bishop. The Presbyterian constitution was maintained in only a few parts of Germany.

The 1918 revolution immediately brought about a very important change. As the Princes no longer existed, some new authority had to be set up in their place. Some of the Protestant churches, particularly the Lutheran, restored the office of bishop. All the churches received full autonomy as constitutionally recognised public institutions. In view of the fact that in earlier times the State had secularised their properties, it still contributed very large amounts to their finances. At the same time, it was necessary for the churches to become largely self-supporting. The State therefore granted them the right of imposing their own taxes, both in individual parishes and in the churches as a whole.

In the German Empire there was no established church, notwithstanding the fact that the Imperial constitution laid down a number of binding general principles. There were only the different autonomous churches of the various States—Prussia, Saxony, Bavaria, Württemberg, etc. As is well known, these churches formed a German Evangelical Church Federation, presided over by an executive which discussed matters of common concern to all German Protestantism, especially relations with foreign churches and church œcumenical movements. This executive had, however, no right whatever to interfere with the autonomy of the individual churches of which the federation was composed.

II. THE NATIONAL SOCIALIST REVOLUTION

THEN came the revolution of 1933. By destroying the whole federal basis of the Reich, the National Socialists created an entirely new situation. The parliamentary democratic system was completely swept away; the

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formerly independent political life of the different States was merged into that of a closely unified Reich under a single all-powerful independent leader—for the leadership is of a personal character. The leader personified the central idea of National Socialism with its totalitarian claim to deal with every aspect of the citizen's life, whether collective or personal, economic or intellectual; it does not indeed even stop short of the spiritual. The unity of the whole nation and of all its members, both in temporal and in spiritual matters, had to be realised in the National Socialist State of the Third Reich. No party, no association, no type of thought, no system of education was in future to be allowed an existence independent of National Socialism. All this meant that the Church had to meet a fundamentally new situation of extreme gravity and difficulty.

The Roman Catholic Church in Germany, as part of a powerful world-wide institution, dependent upon the Holy See, was in a far stronger position than the Protestant Church. Its system had never been nationalised, and the Government could not deal with it without going to Rome, where it had to treat with the Vatican as an independent foreign Power, well able to protect its vital interests in Germany. A Concordat was signed on July 20 last, though its application is giving rise to great difficulties, and the outcome is still uncertain.

The organisation of the Protestant Church, however, was national and closely connected with that of the German State. Moreover, Lutheran doctrine emphasises, even more than that of the Reformed churches, the intimate relations, as far as governmental forms are concerned, between Church and State. It calls upon churchmen to accept the full responsibilities of a citizen, and to submit to the leadership of the State. This extremely close—indeed too close—connection between the Protestant Church and the German State has proved a great danger. The Church has shown itself all too ready to bring its own life into harmony with the new National Socialist ideas,

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while the State on its side regards the Church as more or less part of itself.

It was, of course, essential that the Church should adapt its own organisation to the new structure of government in the Reich. From the very outset, there was a unanimous desire to strengthen the unity of the German Protestant Church by building up a strong central authority under the direction of a Reich bishop, and to bring the formerly independent churches in the various States under the control of this Reich Church. Lutherans as well as Reformed churches accepted the principle of the proposed change, though it was understood that each of the two great branches of Protestantism was to have full liberty to retain within the Reich Church its own traditional confessional faith.

The task of drawing up the new constitution for the Church was given to a triumvirate of Church leaders—Dr. Kapler, a Lutheran layman, President of the German Evangelical Church Federal Council; Bishop Marahrens, Lutheran Bishop of Hanover; and Pastor Hesse of Elberfeld, representing the Reformed churches. Ludwig Müller, an army chaplain and a personal friend of Hitler, acted as intermediary between the three Church leaders and the Chancellor. All four met in conference at Loccum in April.

There was, however, a group of pastors who wished to go a long way further, and to introduce the National Socialist ideal into the whole life of the Church. No mere adaptation of organisation would have satisfied them. Their aim was to apply the principle of Hitlerian leadership to the Church, and to identify Christian belief with National Socialist ideology. There was to be a complete union of church life and national life, and more than that, a merger of the National Socialist creed and the faith of the Church. This group was first and foremost National Socialist, and a complete *Gleichschaltung** of Protestantism both in form

* "Assimilation"—the term generally used to express the absorption of the different organisations and functions into the totalitarian State.

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and spirit was their objective. It was to be attained in three steps. In the first place, everyone suspected of being friendly to the former régime was to be eliminated and all authority in the united Church concentrated in the hands of men in full sympathy with the National Socialist system. In the second place, the same principle of leadership as had been realised by Hitler in the State was to be established in the Church, notwithstanding that such a principle in the Church was wholly incompatible with the spirit of the Gospel, and although this group could point to no one in whose person the necessary qualities for such a position were united. Lastly, they desired to eliminate from Christian teaching everything that was out of harmony with National Socialism, and on the other hand they wanted to introduce, even when they were antagonistic to Church teaching, such ideas as the racial conception of national unity, the old Teutonic hero worship, and the sacred character of the national ambitions.

They were fired with the belief that, at this historic moment in the evolution of their country, such a gospel would appeal to the whole nation, and that they could set up a truly national church in complete harmony with the national life, thus enabling the great national movement to accomplish its task of building up that life afresh. By combining National Socialism with Christianity the group no doubt hoped to complete the triumph of the Reformation of the sixteenth century even over Roman Catholicism.

Here were the beginnings of the future conflict. The centre of the new constitution was the office of Reich bishop. Who was to hold it? The committee of three proposed Dr. F. von Bodelschwingh, Superintendent of the Christian Social Institute at Bethel, near Bielefeld, a man with great spiritual gifts and high administrative ability. This nomination was accepted by an overwhelming majority at a special meeting of the representatives of the provincial churches on May 26.

There was, however, another candidate in the field—

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Ludwig Müller himself. He was the nominee of the German Christians, as the group of pastors just described called themselves. The German Christians were by no means all of one school of theological thought, and some were very much more radical in their Germanic fervour than others. But as their title makes plain they all laid very great stress on the German and racial character of their Christianity. As Pastor Peter* put it, in *People and Church*—"Born of German stock and baptised in the words of my mother tongue, I cannot just be simply a Christian. I can only be a German Christian." Others went further, in agreement with Herr Jäger, who said "When Jesus Christ entered world history, it was, in a last analysis, the fire of the Nordic breed that was revived."

Pastor Müller denounced the nomination of Dr. von Bodelschwingh. The heads of the 28 provincial churches, he said, had not listened to the call of the hour; "the storm detachments upon whom the State now rested must have the Gospel preached to them again in unadulterated words." The German Christians therefore refused to recognise the election. The conflict became very bitter. On June 24 a State Commissioner for the Prussian Evangelical Church was appointed, Herr Jäger, who in turn appointed sub-commissioners, and Dr. von Bodelschwingh retired from his office.

A few days later President von Hindenburg intervened. A new constitution was completed on July 11, and Hitler, in a letter to Hindenburg, announced that "the inner freedom of the Church, which I also have especially at heart, is placed beyond doubt by the withdrawal of the commissioner and the sub-commissioners." The unreality of the freedom, however, was made clear by what followed.

On July 23, there was a general Church election that was intended to settle the new Church problem. At that election the German Christians obtained the support of

* Invested as Bishop of the Saxon Province of Prussia, February 4, 1934.

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the entire National Socialist press, and of the party's political machinery. On the last night before the election Hitler himself gave a wireless address. The result was certainly not justified by the real position. The German Christians secured three-quarters of the votes, and they claim that their influence in all religious matters should be in proportion to their majority; but the foundations of the system they are building up are none the less rotten.

Such, in brief, was the series of events that led to the victory of the German Christians—a victory crowned by the nomination of Ludwig Müller as Reich bishop and Bishop of Prussia, for no other reason than that he had previously enjoyed Hitler's confidence.

III. THE OPPOSITION IN THE CHURCH

IT is time to turn to the other side of the picture. There were pastors and laymen in the Evangelical Church besides the German Christians, and the opposition of these was based on two main grounds. There was first the objection to the racial principles of the German Christians. There was also the objection to the use of force. Each objection is of vital importance.

The German Christians claimed that the Gospel must in future be preached as "the Gospel in the Third Reich" and that the Church must be the Church of the German people—i.e., of Christians of the Aryan race, all non-Aryan Christians being excluded from office and effective membership. The objection to this racial view of Christianity is best shown by the following (among other) reasons which Karl Barth gave in his famous pamphlet, "Theological Existence To-day," for rejecting their doctrines:—

(1) The Church believes in the Divine institution of the State as the guardian and administrator of public law and order. But she does not believe in any State, therefore, not even in the German one, and, therefore, not even in the form of the National Socialist State. The Church preaches the Gospel in all the kingdoms of this

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world. She preaches it also in the Third *Reich*, but not *under* it, nor in *its* spirit.

(2) The fellowship of those belonging to the Church is not determined by blood, therefore not by race, but by the Holy Spirit and Baptism. If the German Evangelical Church excludes Jewish-Christians, or treats them as of a lower grade, she ceases to be a Christian Church.

With regard to the objection to coercion by the State, attention may be called to the message issued by the general superintendents and bishops of Old Prussia on June 26 protesting against the appointment of a State Commissioner for the Prussian Church two days earlier. This message, it is important to notice, made it clear that the bishops protesting were whole-hearted supporters of the Hitler regime in the political sphere :—

We are also seriously concerned that the nation and the Church should find each other. We, too, are determined to co-operate in the unification of our nation through the work of the Church. But in a Church these aims must never be pursued by means of political force. The Church must never be exposed to the pressure of political force. Otherwise the fearless preaching of the truth of the Gospel and the free discussion of the fundamental questions of our faith will be imperilled. In a Church which is too closely bound up with the State the deepest impulses of a faith are checked. History proves this to be a fact. Above all, the Gospel of the German Reformation must not, in a time of political turmoil, be subject to political falsification. This is the danger for our Church to-day.

A large body of pastors were at the very centre of the opposition, giving a resolute and courageous witness to the freedom and purity of the Gospel. They were first known as "The Gospel and Church" Group, and, later, for the most part, were organised as "The Pastors' Emergency League." A very brave and important step was taken by the League, then numbering 2,000 members, in September, in connection with the Prussian Church Synod, and with the National Church Synod at Wittenberg. The Prussian Synod, representing more than half the Protestants of Germany, adopted the Aryan paragraph. The Covenant signed by the 2,000 pastors was a strong and public

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protest against this action, and was followed at the end of the month by a remarkable declaration posted all over Wittenberg, signed by 22 pastors on behalf of the 2,000, in which the principal paragraphs were as follows :—

Lest the Church enter on its road in secret consciousness of guilt, we make the following declaration for the sake of Truth and Love :—

(1) The manner in which the new order was introduced and is being applied in the Church has caused grave concern to numberless earnest Christians. At decisively important synods the present majority has refused the right of thorough discussion and free speech to the representatives of the minority, even in questions which affect the innermost being of the Church and its mission. The life of the Church has for some months been subject to the violent pressure of a group within the Church. Brotherly love must not be denied by the rule of violence ; the Church of Jesus Christ must not be transformed into an empire of this world.

(2) With the tacit approval of the new Church authorities, provincial synods have voted and put into force laws which are in conflict with Holy Writ and with the Church's faith. This is especially true of the "Aryan paragraph." We assert that the legislative authority of the German Church has been infringed by the introduction of such laws in the provincial synods ; we summon the National Synod not to surrender its full powers to other institutions ; we summon it to repeal these laws of the provincial synods, contrary as they are to the Church's faith. It must not be that the Gospel be limited or nullified by human laws.

(3) The Church's ministry is specially endangered in that pastors and church officials are being persecuted because they are not able to follow the group which at present rules in the Church. The ministry is subjected to such pressure from men that the servants of the Word are in danger of breaking the command "Man must obey God rather than men" ; they are in danger of becoming servers of men. We summon the National Synod to assert the full freedom of the preaching of the Gospel and of its bearers in clear words. The preaching of the Church must not serve human ends.

In this grave hour, when we are forced to make this protest by the heavy trouble of our consciences, we promise solemnly before God to use all our strength that the good tidings may be preached pure and unmixed among us as the revelation of the living God in Christ.

The opposition of the pastors was led by Dr. Niemöller, a Berlin pastor of indubitable patriotism. The conflict, however, went generally in favour of the Reich bishop

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until a sensational meeting of German Christians in the Sport Palace in Berlin on November 13. Here demands so radical and so heretical were made, and apparently approved by influential German Christians, including some bishops, that moderate churchmen became seriously alarmed. Dr. Krause, as official leader of the Berlin branch of the German Christians, demanded the elimination of the Old Testament, of the Crucifix, and of "superstitious portions" of the New Testament, as well as the ruthless application of the Aryan paragraph within the Church. The Reich bishop was gravely disturbed and denounced Dr. Krause's speech, deploring the attack on the Bible. The conflict increased the membership of the Pastors' Emergency League, which rose rapidly to about 7,000. Dr. Krause was dismissed. The Reich bishop tried to form a moderate cabinet; and revoked the Aryan paragraph—a great concession. By the end of November, however, the Reich bishop was isolated. He was not a strong man, had little grasp of theological principles, and gave the impression of wavering. He lost the confidence of the German Christians by giving in to their opponents, and yet failed to secure that of the orthodox pastors and laymen. He was obliged to sacrifice his principal supporter, the German Christian Bishop Hossenfelder, who resigned all his offices. But in spite of this the South German bishops opposed him, and the attempts to form an ecclesiastical ministry (or cabinet) according to the constitution were a failure. The Reich bishop then moved further along the German Christian path; and there seems reason to believe that he gained the support of General Goering, head of the police of Prussia. On December 22 he signed an agreement with the leader of the Hitler Youth which led to the destruction of any independent youth movement in the Church, involving 700,000 members of the Evangelical Youth organisation. On January 4 he re-imposed the Aryan paragraph and prohibited all public opposition, on pain of immediate suspension.

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The strife continued unabated. In the middle of January it was confidently expected that Bishop Müller would be obliged to retire, that a new Reich bishop would be appointed and a church government of a mediating kind set up. On January 14 the South German bishops were stated to have expressed their entire lack of confidence in the Reich bishop. The deadlock remained till January 25. On that day Hitler received the Reich bishop together with representatives of both sides, but the hoped-for settlement was prevented by General Goering, who came in unannounced, bringing against Pastor Niemöller, who was present, charges of indiscreet conversation on the telephone, as reported by the secret police. The opposition failed to persuade Hitler, who made an eloquent appeal for unity.

The breakdown of the conference with Hitler was followed two days later by the sensational collapse of the South German bishops. The following is the official statement issued by authority of the Reich bishop :—

On Saturday, January 27, the Reich bishop invited all the leaders of the German Evangelical Church to a conference. As a sequel to this conference—which was long and was carried through with complete unanimity—the following declaration was given out by all the provincial leaders of the German Evangelical Church :—

Filled with the impressions of that great hour when they were assembled in the presence of the Reich Chancellor, the church leaders of the German Evangelical Church unanimously reaffirm their unconditional loyalty to the Third Reich and to its leader. They condemn most severely all acts of criticism against the State, the people or the movement which are capable of endangering the Third Reich. They particularly condemn the use of the foreign press to make the disagreement in the Church falsely appear to be a struggle against the State. All the Church leaders stand united behind the Reich bishop and intend to carry out his instructions and orders in the spirit that he desires ; to crush the Church political opposition to him ; and to establish the authority of the Reich bishop by all constitutional means.

It is said that the South German bishops received a very positive assurance as to the withdrawal of the Aryan paragraph, and possibly other concessions were made. But

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it is beyond doubt that Hitler's appeal for unity in the Church, for the strengthening of authority, and for the combining of forces in the interests of the State, made a profound and probably decisive impression.

The bishops have surrendered*—but the opposition of the pastors continues. The extent and intensity of that opposition, time alone will show. Dr. Niemöller and 50 pastors were suspended on January 28, and since then other prominent leaders have been removed or deposed. Yet even though the Pastors' Emergency League in whole or in part may be dissolved, as a result of a systematic suppression, the opposition is not likely to cease. It is too firmly based on religious principles ; and there are those among its members who are ready to show the spirit of the martyrs. The opposition, it must be repeated again with great emphasis, is spiritual in character, and makes no attack on the National Socialist regime as such. Indeed practically all the members of the League are staunch political supporters of Hitler. How far the members of the opposition will be able to remain a part of the Evangelical Church is still in doubt. How far they will be allowed to separate themselves to form a free Church, if so desiring, is also questionable. But the witness of the opposition pastors to spiritual freedom, at whatever cost, remains superb !

IV. THE OFFICE OF REICH BISHOP

GREAT indeed is the contrast between the attitude of the pastors and the system for which the Reich bishop stands.

In speaking of the Reich bishop we must not fail to realise his extraordinary position. The Pope has behind

* It should be explained that a majority of the bishops were German Christians who had been imposed upon their dioceses, often against the will of the pastors. But the bishops who now surrendered were those who had hitherto withstood the Reich bishop.

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him a whole long line of predecessors, their encyclicals, the Fathers of the Church, the general corpus of its traditions, and the Councils. Even when he speaks *ex cathedra* as the infallible teacher of the Church he is guided by her doctrine, by canonical law, and by his unity with the Roman hierarchy throughout the world. The heads of the other Churches, for instance the Anglican, have also received a sacred trust to hand on. The Reich bishop of the German Church, however, is in an entirely different position. He has come into existence as the result of a revolution that has completely swept away the constitutional function of the German Protestant Church, and that seems to have given him, in accordance with the National Socialist principle of leadership, the power to determine, according to his own insight, or lack of insight, its new constitutional foundations and to build up a fresh organisation upon them. He appoints and dismisses at his pleasure both the bishops and the ministry of the Reich Church. Together with his ministers, he has authority to make laws and to revoke them. He is now the dictator of the Church in spite of the fact that many of the bishops outside Prussia, and more than seven thousand pastors, had declared that they no longer had any confidence in him. The impetus of the National Socialist revolution and Hitler's confidence have carried him to this high position. As the National Synod has formally nominated him for life, no one possesses the legal power to remove him. His doctrine is, however, inevitably influenced by the enthusiasm of the National Socialists, which he regards as "faith." For him, even though he does not clearly say so, Hitler is the God-sent leader of the nation; the revolution and the new God-given foundations of national life have taken the place of the Old Testament.

A tremendous responsibility rests upon his shoulders. The political opportunities of State life are not, and can never be, the governing principle of the Christian Church. The acceptance of a purely secular principle of leadership

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in Church life is proving a source of irremediable trouble. But that is nothing compared to the intrusion of National Socialism into the doctrinal and spiritual life of the Church. The idealism of the Third Reich is now linked with the Kingdom of Christ. The Aryan basis of national life is considered to be the sacred foundation of a spiritual community. In Germany the universal conception of Christianity is to-day overshadowed by a national conception. The essential difference between the life of the Church and a passing phase such as an existing form of national life is no longer recognised. The unity of the nation is regarded as the basic law of the Church, which implies that the Church must sacrifice her own ideals and throw her life in all its fullness into the great surging stream of National Socialism. The totalitarian claims of National Socialism are admitted, not only in the sphere of action, thinking and planning but even in the deepest convictions of the human heart.

INDIA : TOWARDS THE GOAL

THE chief event of the past three months in India has been the earthquake at the beginning of January, which has devastated north-western Bihar and Nepal. The latest accounts show the damage to have been even greater than was at first anticipated, and a high official in Bihar is reported by the *Statesman* as saying that crores of rupees will be needed if adequate reconstruction, as distinct from immediate relief, is to be achieved. India's response to this catastrophe has been prompt and generous, adversity, as usual, having proved the occasion for a slackening of other tensions. One of the most prominent relief workers in Bihar is a Congress leader only recently released from jail, and many political opponents of Government are co-operating heartily with district officers in the administration of relief. Pandit Nehru, it is true, has attacked the Government of Bihar and Orissa for alleged supineness in the first days, but his rather envenomed charges, effectively traversed by the *Statesman* and other papers, are quite unjustified. The local Government's enterprise in arranging an aeroplane survey on the day after the earthquake is only one of the details that go to show commendable earnestness and promptitude, particularly if it is remembered that its own headquarters had suffered severely and that communications of all kinds were broken.

The chief political events of the quarter have been the passing of the Reserve Bank Bill and the conclusion of the commercial negotiations with Japan. Both are of first-rate importance and the latter may be said to mark an epoch in India's progress to autonomy. A special session of the Assembly was held in November and December for

The Reserve Bank Bill

consideration of the Reserve Bank Bill. It is not unlikely that autumn sessions will become a regular feature of the Assembly year. So far they have been convened only for special purposes, but the burden of legislative and other work is increasing steadily and the old allotment of sessions is probably inadequate.

I. THE RESERVE BANK BILL

THE Reserve Bank Bill as passed by the Assembly in December professes to make only "temporary provision on the basis of the existing monetary system" and leaves "the monetary standard best suited to India" to be considered later. Sections 40 and 41 express this by setting out $\text{is. } 6\frac{3}{4}\text{d.}$ and $\text{is. } 5\frac{1}{4}\text{d.}$ as respectively the Bank's maximum purchase and minimum selling prices for sterling. Shares are allocated to five regional registers, to prevent undue concentration of influence, and a similar purpose lies behind the provision that no shareholder may exercise more than ten votes. Concern for the Bank's independence is further expressed in Section 4, which admits shareholding persons or companies not domiciled in India to full shareholders' rights only if their domicile is in a part of the Empire which does not discriminate against Indians, and then only for the period of their residence in India.

The political importance of the Reserve Bank legislation arises from the contents of paragraph 32 of the introduction to the White Paper. This declares the proposals relating to responsibility for the finances of the federation to have been based on the assumption that before the first federal Ministry came into being a reserve bank would have been set up and would be already successfully operating. It may be said that this declaration governed the course and the outcome of the Assembly's proceedings. Whatever the objections to the form suggested for the Bank, or to the

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apparent restrictions placed on future legislatures regarding its amendment, it remained clear that His Majesty's Government held the prior existence of a functioning reserve bank to be an essential preliminary. Hence no party leader was prepared to take the responsibility of allowing the measure to be thrown out. Every effort might be, and was, made to secure as much change as possible, but the optimism regarding the final outcome that prevailed from the beginning in official quarters was justified in the event ; for though there were ups and downs and critical divisions, the final passage of the measure in a not unsatisfactory form was assured before the end of the session.

Conditions were thus very different from the hectic days of Sir Basil Blackett's Bills. Much the same arguments, however, reappeared, and the same passions, though at a lower temperature. The chief Opposition effort, as was to be expected, bore on the ratio question. An agitation directed definitely towards currency depreciation made itself prominent under the aegis of a body known as the Currency League. Its propaganda was plentiful and violent, but in the event may be said to have miscarried. A significant difference from the disputes of former years lay in the weakening of the almost magical merit that used to be attached to 1s. 4d. More than one prominent Indian emerged on this occasion to declare that while a case could be made out for devaluation, there existed no peculiar virtue in 1s. 4d., as against 1s. 6d. or any other figure. Indian commercial, as distinct from financial, interests seem more inclined to recognise the dangers of severing the sterling link, with its obvious and continuing advantages, merely for the sake of conjectural and at best temporary benefits to trade as a result of depreciation.

The ratio and connected questions in India have in the past suffered from the chronic suspicion that every step is designed in the interests of British commerce and the City of London. *Timeo Danaos*, in fact, has been the motto

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throughout. The unfortunate but inevitable result of this approach was that it was almost impossible to secure any degree of detached consideration. But the recent discussions have produced some indications that Indian political opinion, however suspicious of City or British interests, has begun to suspect that there are forces in India also not altogether disinterested. On November 24 a pro-Congress Delhi paper attacked the policy of the Currency League in unmeasured terms, describing it as "one of those bodies which a small caucus of financial magnates brings into existence overnight to carry on propaganda in the name of the people for the furtherance of their own selfish ends." Such pronouncements, apart from their actual merits, are indications of an increasing sense of reality on the part of the more vocal elements in India.

The main success secured by the Opposition in the Assembly was the carrying by a small majority of an amendment directing the establishment of a branch of the Bank in London. The motive force behind this was the distrust of the City already mentioned. It was felt that if the Bank entrusted its London operations to the Bank of England its independence would be inevitably compromised.

Since the Bill provides for the maintenance of the existing sterling-rupee ratio, the main vote on the ratio question was taken on an ingeniously worded amendment to the effect that gold or sterling should be sold at the legal rate in force on the day before the ratio clause came into operation. Three prominent participators in the Bank Bill discussions in London in the summer, Sir Cowasji Jehangir, Dewan Bahadur Ramaswami Mudaliar and Mr. Mody, all spoke in support of the amendment, contending that it was in no way contrary to the letter and spirit of those discussions. This attitude brought forth outspoken condemnation from the European members of the House and was rejected by the Finance Member in a 90-minute speech. He emphasised the fact that the amendment was practically

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an invitation to speculators. It was a dramatic moment when he revealed that an unscrupulous attempt had been made to cause fluctuations in the exchange by despatching to a news agency a forged letter, purporting to emanate from the Finance Department and bearing on the matters at issue. The release of this letter was prevented only in the nick of time. Had it appeared in the press any interested parties who had been forewarned would have scored heavily in speculation. This revelation almost certainly contributed towards the substantial majority against the amendment, but even without it the Government would probably have won ; the amendment was too ingenious and the invitation to speculators too apparent. The Council of State has yet to pass the Bill, but there seems little doubt that they will do so. It may be said, therefore, that one at least of the preliminary conditions for the reforms has been fulfilled. A review of the session leaves, on the whole, an encouraging impression, for this attitude has been met and overcome not by *force majeure* but by reason and patience, and even at the most acrid moments there was a feeling that the Assembly had retained touch with reality.

II. THE COTTON NEGOTIATIONS

THE agreement reached between the representatives of India and Japan concerning their trade and tariff relations links India's imports of Japanese piece-goods to Japan's imports of Indian raw cotton by means of a basic quota, the figures being respectively 325 million yards and one million bales, with provision for upward or downward variations. Re-exported goods will be deducted from the figures of imports. The quotas are classified into categories, to which percentages are allotted. The countries will accord each other most-favoured-nation treatment ; should any modification of either customs tariff affect

The Cotton Negotiations

adversely the trade interests of the other country, efforts will be made to find a remedy. The Government of India will retain the right to impose or vary customs rates so as to correct the effect of fluctuations in the exchange value of the yen, and Japan will exercise a corresponding right should the rupee fall below .732 yen. Subject to other provisions of the agreement, Indian duties on Japanese piece-goods are not to exceed 50 per cent. *ad valorem*, or 5½ annas per pound.

There might have been attached to these prolonged discussions the legend "hope deferred," for it took three and a half months before any agreement emerged, and at more than one stage a profound pessimism prevailed. It is agreed that the Japanese showed themselves skilful and persistent negotiators, but the Indian press and other commentators allowed themselves free condemnation of what was termed Japanese intransigence. Originally, in opposition to what from the first had been a main Indian contention, the Japanese refused to link their piece-goods exports to India with Japanese purchases of Indian cotton. When this was formally accepted in principle by the Japanese, arguments and discussions on quota details began. The announcement that the quota basis had been established was made on January 4.

The more extreme Indian newspapers condemned the agreement as too favourable to Japan. There entered into this attitude the invariable ingredient of opposition to anything done by the present Government in India. But allowing for this, it certainly seems to be the case that Japan has come out well and recognises it. The Indian attitude towards the Japanese at present may be said to be one of half resentful admiration for qualities summed up by a Punjab paper in the description, "prize bluffers." An element of bluff enters into all negotiations, and skill at poker and diplomacy have been said to go together. The Japanese have certainly made good use of this faculty. Part of the delay is attributed to the fluctuations of the

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dollar, the chief Japanese bluff being put up really to gain time for a study of the dollar's vagaries and an estimate of its future. How far would the dollar go? Could its depreciation be used to screw better terms out of India?

Such problems no doubt exercised the minds of the Japanese delegation, but it is very doubtful if there was ever any prospect of their going away without completing an agreement, for the Japanese are realists and the Indian market is essential to Japan. A common Indian criticism of the negotiations is that the Government of India showed their hand too early and thus encouraged their more skilful opponents in their bidding. At one stage prominence was given to the denunciation by Osaka millowners of the negotiations and their threats to boycott Indian cotton. The Indian response was immediate and instructive and not lost on the Japanese. General Indian opinion was outspoken. A Lahore paper suggested that the Indian delegation should give the Japanese "a bit of their mind" and ask them either to concede reasonable Indian demands or "pack their way to Japan at an early date."

The quota system of national interchange has thus scored one more success, an interesting illustration of how far we have departed from the free trade conditions of half a century ago. It would seem as if tariffs led inevitably to quotas, and quotas to barter. More than one Indian newspaper has hinted at this sequence. Perhaps another general reflection is that the most-favoured-nation system does not accord well with quotas and has manifest drawbacks when claimed by a powerful competitor in one's own domain. This has been felt elsewhere than in India and found pointed expression in a Calcutta paper on December 21. The result of Japan's being given the most-favoured-nation treatment was declared to be that she was "allowed to kill our national industries." India can offer many fields of research to the economist, and possibly the best field of experiment to-day is the handling of commerce and tariffs and their effects on the life of a country.

The Cotton Negotiations

A complaint being voiced in the Assembly and press at the time of writing illustrates Indian sensitiveness on matters of status. Why, it is asked, should the formal completion of this agreement be reserved for London? Sir Joseph Bore's explanation that India is not yet an international unit and his assurance that there will be no alteration of the terms have been visited by the joint condemnation that India could as well sign this agreement as the Versailles Treaty, which bears her name, and that if there are to be no changes made why insist on signature in the United Kingdom? "The fact is," declares the *Tribune*, "that India acquires an international status just when it suits Britain's purpose to assign that status to her." The same paper asks why the Government should not in any case "anticipate the future by a few months," an interesting sidelight on its expectations touching the advent of the reforms.

Along with the official Indo-Japanese negotiations unofficial discussions with representatives of Lancashire cotton interests were initiated. The latter made much better progress, and certain agreements were reached. These, of course, carry no valid force since they require confirmation by the Governments,* but the fact that Indian and Lancashire commercial interests have come together in discussions of this sort has been recognised as a considerable step forward. The chief points in the agreement between Sir William Clare Lees and Mr. Mody are that any advantages extended to British goods in Dominion or other markets shall be extended to Indian products, and that when the Government of India removes the general surcharge on imports imposed in 1931 Indian textile interests will not seek the imposition of further duties on United Kingdom imports. The agreement was vehemently denounced in Indian nationalist newspapers. The *Hindustan Times*, for

* On February 5 Sir Joseph Bore introduced a Bill giving effect both to the Indo-Japanese agreement and to the understanding with Lancashire.
—EDITOR.

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example, declares that Mr. Mody "has made a gift to the Lancashire delegation," receiving nothing in return, and exhorts the Bombay millowners to repudiate him. Much the same attitude found expression in other parts of the country, but it is not impossible that time will operate here in the same way as in the case of the Reserve Bank. When the general trend of economic intercourse is apparently from competition to arrangement, the desirability of investigating such possibilities between India and Lancashire can hardly be contested.

III. ARMY FINANCE AND OTHER PROBLEMS

ANOTHER topic arousing much interest, though not, like the Reserve Bank Bill or the Indo-Japanese agreement, the occasion for actual discussions or negotiations in India, was the report of the Defence Expenditure Tribunal. This suggested an allotment of the "overhead" costs of the army in India between Great Britain and India in proportion to their respective military establishments, together with a general contribution by Imperial to Indian revenues, which has since been assessed at £1½ million a year. It was further proposed that India should not contribute to the cost of the regular or supplementary reserve forces, and should continue to be paid a subsidy towards the cost of transporting troops by sea. The net result is a gain to India of about two crores of rupees.

Comment and condemnation have been high-pitched and at times almost divorced from reality. The subject has long vexed Indian political opinion, and there enters into Indian pronouncements on it the unprecise but powerful complex of status. There is a suspicion that Great Britain is using India as a convenience, not treating her as a partner and an equal, with the result that every detail of the award has been scrutinised for flaws, and any synoptic view is lacking. The *Tribune* dismisses the two crores adjudged to India as a

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"pittance," while flowers of epithet from members of the Legislative Assembly include "insult" and "fleabite." The general argument starts from the declaration in the report itself that the British Army in India partakes of the nature of an imperial reserve, and that India affords the best training ground for British troops. Consequently, it is argued, all cost not purely relative to India should be borne on the British estimates; at the very most India should be debited with only the cost of Indian troops equal in number to the British troops maintained in India. The refusal to give the award retrospective effect is condemned as unjustifiable, and as indistinguishable from the repudiation of obligations at which British hands are so apt to be raised in pious horror. Finally suspicion finds a convenient point of attack in the failure to publish the exact text of the report or the full notes of the Indian members. It is peculiarly unfortunate that what is really an Empire problem likely to prove of the utmost importance in a possibly not very distant future should be regarded as on the level of a market-place bargain. To some extent this was inevitable. The grievance has existed too long not to have accumulated an overgrowth of opinions and prejudice difficult enough to penetrate at any time; and the composition of the long-delayed tribunal, interpreted as an indication that the authorities intended to keep in subordination the Indian interests vitally concerned, gave suspicion a good start.

For the moment the Government's acceptance of the award holds the field, but it would be inadvisable to consider the issue as closed, still less as happily settled. The indications are that the Indian governments of the future will return to the charge and press for the settlement of an Empire problem on an Empire basis.

The general political arena during the quarter has been remarkably quiet. In more than one quarter, feelers were put out for a summoning of the All-India Congress Committee, particularly from the right wing elements. The Government, however, made it plain that they would

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consider any formal gathering of a body still committed to civil disobedience as an infraction of the law, an attitude that was condemned in more than one nationalist paper as at once tyrannical and foolish.

The latter criticism was based on the following reasoning. Only a formal resolution can alter a Congress policy formally adopted in the past. It is practically certain that were the Committee free to meet, a strong move would be made to renounce civil disobedience and embrace, if not actual co-operation, at least some less negative and uncompromising attitude. By destroying the possibility of any formal renunciation, the Government at the same moment denied the possibility of influence to the right wing element in the Congress, with the result that the Congress movement and Congressmen will remain chained to the eccentric evolutions of Mr. Gandhi and Pandit Nehru. Neither of these authorities, it may be noted, welcomed the suggestion to call the All-India Congress Committee. Reasons are freely attributed to both, not all of the most creditable kind. Since the prestige of both would be seriously affected by a formal renunciation of civil disobedience, it is to their interest to prevent such a declaration.

It is difficult to sum up in a phrase the present condition of the political world. On the surface there is practically nothing. Below there is considerable turmoil, but it is as yet sporadic and undirected. It was suggested in an earlier issue of *THE ROUND TABLE** that the advent of the White Paper was the ultimate governing force in Indian political movements and oscillations. The passage of six months has confirmed this impression, and a recent speech by Mr. Sastri has given it expression. In effect, what he said was : the White Paper is there, and the reforms, however much we may dislike the details, are on their way. What are we going to do ? What is our plan of campaign ?

These questions might be said to be agitating the whole Indian political world to-day, not only the Liberals whom

* See *THE ROUND TABLE*, No. 92, September 1933, p. 807.

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Mr. Sastri had primarily in mind. The *Tribune* and more than one other newspaper call for unity, at least in opposition, on the theory that if the whole of India unites in condemning the White Paper at least a breather will be gained during which some more positive common plan of campaign may be formed. Appeal has been made more than once to the success of the united Indian opposition to the Statutory Commission. This policy of uniting on a negative is, however, really a counsel of despair, and its exponents come near to acknowledging it as such. It is by no means in the British interest that this state of mind should continue. Still less is it in the interest of India, and the warning has appeared in more than one paper that such an attitude plays straight into the hands of Sir Samuel Hoare's die-hard opponents, who will say: if that is India's attitude, who will work the reforms?

The end of October saw the formation, in the two most advanced provinces of India, Bombay and Madras, of parties indicating resentment at Congress's purposeless drift. The Democratic Swaraj party in Bombay contains a strong Mahratta element, while the parallel formation in Madras is said to be backed by the editor* of the *Hindu* and other influential men. A few days later Mr. K. F. Nariman issued a statement protesting against the continuation of "Mahatmic hypnotism" and demanding a more practical outlook on affairs. It is unlikely that the coincidence of date and effort is fortuitous. Pandit Malaviya intimated that he had a plan up his sleeve, which he would release if the All-India Congress Committee were summoned. This is not the first time the Pandit has referred to some private panacea, and a good deal of scepticism greeted his latest deliverance. The *Pioneer*, for example, twitted him with "sentimental endeavours to achieve the impossible." Discussions in the Congress press on political matters have shown a tendency to acerbity and

* Mr. Rangaswami Iyengar, whose death was announced since these pages were written.—EDITOR.

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personalities, which can probably be attributed to the nervousness or irritation always produced by uncertainty. They do not know where they are, they fear they may find themselves in great difficulties, and yet no practical policy is put before them. Both Mr. Gandhi and Pandit Nehru have come in for severe criticism in the pages of journals where once they inspired nothing but approbation. The Mahatma is referred to by a correspondent in a Bombay paper as a "quick change artist" from whom "self-knowledge has been cruelly withheld." Another publicist makes the charge that "with Mahatma Gandhi at the helm of our Congress affairs we are never sure of our collective will and decision being respected."

Political India might be said to be in a state of mingled bewilderment and anxiety in the face of the steady approach of reforms and new conditions, which it may dislike but to which it has so far no alternative to offer. It looks around for a leader and a lead, to trust and to follow; so far its quest has been in vain, but it would probably have been better for Great Britain as well as for India had it succeeded.

There are many other points that might be dwelt on did space permit, for the political simmering leaves nothing unaffected. The depressed classes, the import of Mr. Gandhi's *harijan* activities to the wider interests of Congress and India, the Hindu Mahasabha's practical disowning of non-co-operation and its agitation against the communal decision and particularly the Poona Pact, the continuance of terrorism in Bengal and the consequent introduction of further legislation to strengthen the hands of Government there, the extensive remissions of land revenue granted in more than one province and the bearing of this on provincial revenues and land revenue policy—these are but a few of the issues that may call for extended treatment before long.

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GREAT BRITAIN : SOCIAL AND INDUSTRIAL REFORM

THE principle of "National" government seems to be finding some difficulty in holding its own against the impact of opposing forces. Since the Liberals who acknowledge the leadership of Sir Herbert Samuel finally moved into Opposition, the Government's parliamentary support, outside the ranks of the Ministry itself, has been almost entirely Conservative. Newspapers both of the Left and of the Right have attacked the present "merger"; indeed it was the Tory *Daily Mail* that published a slashing denunciation of Mr. MacDonald and other champions of "National" government by the Socialist Lord Snowden, who may yet prove to be as powerful an opponent of the Government at the next general election as he was a supporter at the last. The favourite objects of attack by the Opposition press have been not so much the Conservative leaders as the Prime Minister and Sir John Simon. On the Right, the "die-hards" clamour for release from compromise with radicalism, especially in connection with India. The Government's strength lies with the Conservatives of the Centre, who fear that the result of a split into parties would be either a return of Labour to office or the establishment of a purely Conservative Government, dominated, or at least held in check, by the extreme Right. Doubtless sensitive to these movements of opinion, Mr. MacDonald and his colleagues inaugurated, with the new year, a persistent campaign of public oratory in support of the National Government. The Prime Minister, however, has so far been accorded very mixed receptions by his audiences.

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In a by-election at Cambridge on February 8, the Conservative poll fell from 23,347 at the general election to 14,896, while the Labour poll rose from 8,552 to 12,176. Even more striking, however, is the fact that the Liberal candidate received only 2,023 votes, thus forfeiting his deposit, whereas in 1929, the last occasion on which a Liberal stood for the seat, he polled 8,124 votes.

The Government's strongest card is still undoubtedly the disunity of the Opposition, even within the Labour party itself. The Liberal party stands to profit by any reaction against protection; but in any case its return to independent power is out of the question. The Labour party has officially set its face sternly against co-operation with the Liberals, and is itself divided. The constant tendency towards a schism between the trade-unionist and the "intellectual" wings of the party was manifested in the suspicion and resentment aroused in the rank and file by Sir Stafford Cripps's plan* for the use of emergency methods in bringing the socialist State into being. His proposals have now been definitely turned down by the party executive. Events abroad have inculcated in the British working man a healthy distrust of dictatorships, which are wholly incompatible with the British ideals of democracy, freedom and the rule of law. In external affairs, the Opposition complaint is that the Government have failed to express clearly and decisively British popular insistence upon real measures of disarmament. The new disarmament proposals are an answer to that challenge. At home, the Labour party offers socialism in the lump as the alternative to the general policy of letting capitalism heal itself—a feat which it certainly seems to be performing, however slowly—but the burden of its present appeal to the electors is an attack on the Government's social programme.

* See THE ROUND TABLE, No. 93, December 1933, p. 148.

Housing

I. HOUSING

ONE of the favourite battlefields picked out by the Opposition is the problem of housing. "Cynical apathy" is among the phrases used by a well-known weekly journal about the Minister of Health, and even some supporters of the Government, like *The Times*, have expressed a certain uneasiness as to the adequacy of official policy. Briefly, the position is this. When the National Government took office, government assistance to housing took two main forms: the "Wheatley" Act of 1924, under which a subsidy* of £9 per annum for forty years was payable to local authorities and other responsible entrepreneurs upon each new workman's house conforming to certain specifications; and the "Greenwood" Act of 1930, under which an annual subsidy* of £2 5s. for each person rehoused was payable to local authorities for forty years in connection with slum clearance schemes. The Government, partly for reasons of economy, and partly in order to concentrate both financial resources and the energies of local authorities on what they considered the more urgent part of the problem, terminated the 1924 Act, while retaining the Greenwood rebuilding subsidy. They laid plans for an energetic slum clearance programme, to be carried through by local authorities, taking powers to compel activity should the authorities prove reluctant or procrastinatory; and they initiated a scheme for a government guarantee to advances by building societies for rehousing purposes.

The core of the case against the Government is the alleged inadequacy of the provision made for new houses to let at rents that working people can afford.† The

* These subsidies were varied to meet rural conditions or specially congested conditions which made tenement buildings necessary.

† The vital importance of keeping rents low is illustrated by the many medical reports that record an actual deterioration of health among people taken out of slums and accommodated in local authority houses—simply because they have to pay higher rents and so can afford less food.

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slum clearance campaign does nothing to meet this broad problem, for although under the 1930 Act local authorities must provide rehousing accommodation for people displaced on account of clearance schemes, any initial shortage of houses would remain unrelieved. The slums cannot be abolished, as a malignant growth may be cut out of the body, by replacing a determinate number of bad old houses with new and better ones ; they are a general disease, the product of poverty on the one hand, and on the other a chronic insufficiency of houses. Several attempts have been made to estimate the size of the actual housing shortage. Sir Raymond Unwin, past-president of the Royal Institute of British Architects, has estimated that, in addition to three-quarters of a million houses required to make up an existing deficiency in terms of overcrowding, there are half a million houses not fit to live in, and another half million which " fall below any decent standard of accommodation that any of us would set up." *The Times* puts the requirements at a million houses at least, to let at an inclusive rent of not more than 10s. a week.

Is this gap likely to be filled under existing conditions ? The five-year plans so far submitted by local authorities under slum clearance schemes contemplate the demolition and replacement of some 240,000 houses. This would represent a great advance on anything that has yet been done in this direction, but of course for every new house there would be an equivalent destruction of former housing accommodation. There will be a " carry-over " of 84,000 houses to be built under the expiring Wheatley Act. The remainder of the contribution of local authorities is likely to be very small—in the year ended September last they built only 1,236 houses without subsidy. That leaves a tremendous task for unassisted private enterprise—not only to make good practically all of the present shortage of a million or more houses, but also to take care of the normal expansion of the population, and to meet the inevitable process of deterioration in existing houses. Some-

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thing may be expected from the efforts of building societies under the terms of the 1933 Act, but moderate opinion does not expect much from this possibility. Still less sanguine are the hopes that unsubsidised private building will be adequate for the huge task that has been outlined. In the six months to September last, it was responsible for no more than 14,500 houses to let, and in all for only 29,000 of a type (according to the Minister) appropriate for the lower-paid manual workers. The Bishop of Winchester, appealing in the House of Lords for a more vigorous housing policy, aptly applied to the present situation the Red Queen's explanation to Alice: "It takes all the running you can do to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that."

Beside what may be called the technical aspect of the housing problem, there are certain general considerations that are even more forcible. Overcrowding and evil housing conditions are vile blots on our social system, fostering vice, disease and the despair that breeds revolution. Over against the work of eradicating them, as yet unaccomplished, stand two and a half million unemployed men and women. The paradox of poverty in the midst of plenty was never so grim as this. Trade is improving, but it is still thin and sickly by reason of the diminished purchasing power that the army of unemployed betoken. Public works of the ordinary kind have been found too costly as a means of relieving unemployment, but in the case of housing some financial return is assured, while the social value is obvious. Surely, it is said, this is a splendid opportunity at once to solve a social problem and to inject the wanted purchasing power into a flaccid economic system.

The counter-proposals of the critics are varied. The Labour case includes, of course, the restoration of the Wheatley subsidy. While the subsidy undoubtedly stimulated housing during a period of grave scarcity and high prices, there are a number of objections to it now. It is

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expensive. The present capital value, at $3\frac{1}{2}$ per cent., of £9 a year for forty years is £192, which is roughly two-thirds of the total cost of building non-parlour houses of the required type to-day. The steady fall in building costs has clearly rendered the amount of the subsidy excessive. That consideration leads on to the second great objection to a general subsidy, namely, that it is paid not only to the "marginal" builder but also to the local authority or private builder who would have put up the house without the subsidy, or with a reduced subsidy. Thirdly, there is the lasting objection that a subsidy penalises and discourages private enterprise which, for one reason or another, is not in a position to qualify for it.

For these and other reasons, including the popularity of "planning" as a primary dogma of political economy, the idea of a national housing organisation has been gaining ground. Sir Raymond Unwin and others put before the Moyne Committee* a proposal for such a national board, operating through independent public utility societies. The financial basis would be a government guarantee of the principal and most of the interest on a housing loan. The Committee, not being convinced that the proposal would involve no public charge, regarded themselves as precluded by their terms of reference from recommending its adoption. However, they thought it desirable to indicate why, on the information before them, they would have come to a similar conclusion even without that limitation.† First, private enterprise would be exposed to a new form of subsidised competition and would be effec-

* For a summary of the Moyne Committee's report see THE ROUND TABLE, No. 92, September 1933, p. 860. The terms of reference of the Committee barred any recommendations for promoting the supply of working-class houses that would involve a public charge; and indeed the Committee explicitly sought to adjust their proposals to the Government's policy, which was "to rely in the main on competitive private enterprise to provide a new supply of accommodation for the working classes."

† Two Liberal members of the Committee—on which the Labour Opposition was not represented—appended minutes of dissent from the passages dealing with a national housing authority.

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tively prevented from entering the field of working-class housing. They could therefore recommend the proposal only if the time had come when the provision of working-class houses must become finally and exclusively the function of public authorities, and they refused thus to assume that the Government's policy was a failure. Moreover, even if private enterprise should fail, the Committee were not satisfied that the appropriate remedy was not to be found in the provision of unsubsidised houses by local authorities. As between administration of housing service by local authorities, and its administration by a new central and local public utility organisation responsible to Parliament on major issues of policy, an important question of principle was clearly raised. The Committee's opinion was that no sufficiently strong case had been made to them for the creation at this juncture of such a new organisation. However, they incorporated the principle of the suggestions made by Sir Raymond Unwin in their proposals regarding reconditioning, which, they thought, would afford an opportunity of increasing the potentialities of the public utility society, operating within a limited field and properly co-ordinated with existing agencies.

This rebuff has not daunted the advocates of a national housing authority. Their case, in brief, is that a national scandal demands national responsibility and a national effort; that private enterprise demonstrably cannot provide the cheapest workmen's dwellings on the scale required; that local authorities are usually slow and often incompetent; that the economies of mass purchase could be effected and experience could be pooled; and that the lowest possible rate of interest—obviously a critical item in housing finance—could be obtained. In connection with the last point, some exponents of the scheme call for a national appeal on a semi-charitable basis, in order to raise money at a rate of interest well below the accepted economic level, say 2 per cent. The controversy goes on, nor will it end until—by some means or other—the terrible

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evil of bad housing conditions is eradicated from our social life. The sense of public responsibility is growing deeper, and the Government will obviously be courting danger if they pay no heed to the demand for a more heroic policy.

II. UNEMPLOYMENT INSURANCE

THE continuance of large-scale unemployment gives the Opposition another target for their attacks on the Government. On December 5, the Unemployment Insurance Bill* passed its second reading in the House of Commons by 435 votes to 81, but not before it had been subjected to criticism from a number of different quarters. The list of complaints against the measure that was given in the last issue of *THE ROUND TABLE* has since been considerably lengthened. Mr. Greenwood mentioned some when he moved the following amendment on behalf of the Labour Opposition :—

That this House declines to assent to the second reading of an Unemployment Bill which fails to recognise that all the victims of the unemployment which is involved in the modern system of industrial capitalism are entitled to equal and honourable treatment and maintenance from national funds so as to preserve intact their value to and status in the community.

Mr. Greenwood alleged that the allowance for out-of-work juveniles was miserably inadequate ; that nothing satisfactory was being done for agricultural labourers and domestic servants, while “ the black-coated worker was to be allowed to continue to rot in suburbia with only the poor law before him if he fell on bad times ” ; that the Bill attempted to fasten permanently on the insurance system rates of benefit imposed two years ago ; that, so far from freeing the able-bodied unemployed from the stigma of the poor law, it centralised and intensified the

* For a summary of the Bill, see *THE ROUND TABLE*, No. 93, December 1933, p. 126.

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poor law principle; and that the local authorities, who ought not to have to pay a penny of the cost of relief to the able-bodied, were being treated unfairly.

Other criticisms that have been made on both sides of the House include a protest against saddling the fund with debt incurred, so it is claimed, largely on account of relief payments which ought not to be charged to the finances of insurance. Mr. Chamberlain retorted that as much as £76,000,000, out of a total debt of £115,000,000, was incurred in the two years following April, 1930, when the Exchequer had already assumed responsibility for all payments to the unemployed who could not prove their right to insurance benefit proper. The Chancellor said that he could not conceive a worse way of starting a new fund on a self-supporting basis than to suggest that it did not matter what debts the fund ran up because in the end the State would bear them. With regard to the local authorities, who claimed to be relieved of all charge in connection with the relief of the able-bodied, and who protested against contributing to a service in whose administration they were to have no part, the Chancellor urged that they had been very favourably treated in the Bill. Of their present expenses in that connection, 40 per cent. were to be taken over by the Exchequer, without any readjustment of their block grants, with the result that, in sum, the Exchequer would now pay 95 per cent. and the local authorities only 5 per cent. of the cost of the relief of the able-bodied unemployed, outside insurance. However, in response to urgent pleas that the cost of unemployment relief would still fall with inequitable severity on the distressed areas, the Chancellor later announced a concession, whereby the present special grant to necessitous areas would be deducted from the cost of local unemployment relief before reckoning the 60 per cent. payable by local authorities to the Exchequer. This represents an allowance of about £300,000 a year to those areas.

With regard to the provisions for unemployed juveniles,

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the Minister of Labour declared that the Government were wholly opposed to what might be called "doles for children"; they thought it fair, however, that the parents of unemployed lads or girls, if themselves unemployed and insured, should receive a special benefit. The real object of those provisions was not financial at all; it was to make sure of getting hold of the children so as to give them industrial training while they could not find work. The Government gave an earnest of their determination in this field by agreeing in Committee to take powers to compel reluctant local authorities to provide sufficient training centres.

More than one Government spokesman strenuously denied the accusation that the Bill perpetuated the present scale of unemployment benefit. On the contrary, within the limits of their instructions to maintain the solvency of the fund, the Unemployment Insurance Statutory Committee would have complete liberty to recommend to Parliament what changes they pleased. If there were a surplus, they could, if they wished, dispose of it by increasing benefits, or otherwise, for the advantage of the insured population. In this connection, the Opposition seemed not to make quite as strong a point as they might of the way in which the Government seek to dispose of the present prospective surplus, amounting to some £8,500,000 (on the basis of two and a half million unemployed, which is the figure used in all official calculations for the purpose of the Bill). The proposal is to extend the period of insurance benefit beyond the present maximum of 26 weeks, for those with a good record of contributions. This enlargement of the scope of insurance relieves the Exchequer of £6,250,000, but adds £8,350,000 to the charges on the fund. The margin of £2,100,000 represents the difference between insurance benefit and unemployment assistance for the 167,000 persons who at any one date would, on the average, be thus brought within the field of insurance. To them, at least, that is a sub-

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stantial monetary concession, and in addition they will no longer be subject to the means test, but the critics point out that the Treasury gains £6,250,000 at the price of abolishing all immediate prospects of restoring the cuts in unemployment benefit, which were part of the admittedly temporary economy measures of 1931. The question has a disconcerting reverse aspect. If the expenditure of the fund were to start exceeding its income, would it not be open to the Statutory Committee to recommend the opposite process of transferring classes of unemployed from insurance to relief? The Government could have no defence in principle.

This illustrates one of the inherent difficulties of the dual system of aiding the unemployed. The only way in which it can be completely avoided is to adopt the Labour policy of equal maintenance for all persons unemployed against their will, whatever their record of work or period of unemployment. The conception embodied in the present Bill is that the insurance scheme must deserve its name, by balancing income and outgo, while beyond its confines the unemployed worker must be granted State maintenance according to his family needs. That conception, however, is not really scientific, though it provides a valuable working rule; in the absence of a contract between the parties, general principles of insurance provide no answer to the question whether a man who has had such-and-such a record of contributions, and such-and-such a spell of unemployment, ought to be regarded as still insured or not. Nor is the distinction drawn by Mr. R. S. Hudson, the Parliamentary Secretary of the Ministry of Labour, between long-term and short-term unemployment any more decisive; indeed, in extending the maximum period of benefit from 26 to 52 weeks the Government themselves are undoubtedly bringing in the long-term unemployed. Their right to decide the issue is strongly founded on the fact that the Exchequer contributes some £20,000,000 a year to the insurance fund; but that does not alter the conclusion that the point at

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which the unemployed cease to be insured, and therefore can no longer claim benefit as of right is, in the last resort, an arbitrary one.

That argument is one of the handiest weapons available to the Labour Opposition in their attack on the means test, which has been applicable since 1931 to all those seeking unemployment assistance outside the insurance scheme. The Minister of Labour was at some pains to defend the principle of the test in moving the second reading of the new Bill. The proposal, he said, that every unemployed man should receive out of the pockets of his fellow citizens a fixed payment as of right, whether he needed it or not, would involve the closest control by the State over the terms and conditions of industrial employment. The workers themselves would never agree to the regimentation required. It was right that a man should turn to his family for help in need before he called upon the community. A service based on need, said Mr. Hudson, had the convincing advantage that it at least attempted to have some serious regard to the principle of equality. It did not add equal benefits to unequal resources, but sought to apportion the assistance available in such a way that the greater measure of help reached those whose need was most. A Liberal critic complained that the test of household means worked unjustly, promoting a break-up of homes, and that either the individual or the family would be a preferable unit. The Labour party took the plunge and made their case a complete negation. One of their spokesmen said that if they became the next Government they would remove the means test entirely and absolutely. The assumption on which the Government were proceeding, said Mr. Aneurin Bevan, was that unemployment was primarily the responsibility of the individual citizen, whereas the Labour party took the view that unemployment was a social act. The longer a man had been idle, the heavier the crime that society had committed against him.

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The Labour campaign for higher benefits to the unemployed, whether insured or not, has probably been helped by the publication of the report of a special committee of the British Medical Association, estimating the minimum weekly expenditure on foodstuffs that must be incurred if health and working capacity are to be maintained. The figure for a man, wife and three children was 20s. 0½d. If this amount is adjusted in accordance with subsequent changes in the cost of living, and supplemented by an allowance for rent, clothing, fuel and light, based on the Merseyside Social Survey, then the total becomes 37s. 3d. per week. This compares with unemployment benefit of 29s. 3d. on the present scale and a maximum of 27s. payable by the public assistance authority of a typical provincial city. It is clear, wrote a commentator in *The Manchester Guardian*, that unemployment assistance cannot at one and the same time be adequate for the needs of its recipients and be less than insurance benefit. Either the assistance must remain insufficient or the benefit must be raised.

The paradox would find at least a partial solution in an increase of the rates of dependents' allowances, since the discrepancy between actual benefit payable and estimated minimum needs is comparatively small for a childless man, whether married or not, and it increases progressively with the number of children. Support was forthcoming from members of all parties for an amendment to the Bill designed to raise the benefit for a dependent child from 2s. to 3s. a week ; but the Minister was adamant, pleading that Governments of different complexions had always regarded the lower figure as proper in the past, when the cost of living was actually higher. The Government, indeed, are faced with a difficulty of principle. The very existence of dependents' benefit is a tacit admission that even the insurance system partakes of the nature of State maintenance ; for on no other basis could an insured person have an extra claim simply because he fathered more

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children. To increase dependents' benefits would be to emphasise this aspect of the system and to blur the distinction—which is the key to the Government's policy—between insurance and relief. Their general attitude in Committee, however, has been one of sympathy towards amendments genuinely designed to improve the Bill and to remove grievances. For instance, in order to allay suspicions that they were reviving the old "genuinely seeking work" clause, they agreed that an applicant for benefit should be required to show, not that he was "unable to obtain suitable employment," but only that he had not neglected to avail himself of an opportunity of obtaining suitable employment, the onus of proof being on the officer of the employment exchange.

The Government cannot fail to realise that the problem of unemployment insurance is one of vital and daily importance to a very large part of the population. To-day the registered unemployed number about two and a half millions ; but it is not they and their families alone who are affected by the terms of unemployment insurance and relief. Every wage-earner in the country runs some risk of falling out of work. Unemployment is the bug-bear of the working life of twelve and a half million men and women in the insurable trades alone. In the seven years ended 1930 a measure of unemployment was experienced by nearly two-thirds of the insured population, excluding new entrants to industry. In 1932 alone, a bad year, five and a half million insured persons were out of work at some time or other, and 40 per cent. of them reached the point at which their insurance rights expired. Not a remnant of down-and-outs, but the whole working population of the kingdom, with their dependents, are intimately concerned with the provisions of the Unemployment Insurance Bill.

Industrial Reorganisation

III. INDUSTRIAL REORGANISATION

THE steady fall in registered unemployment met with a check in January. The rise in the total, though largely seasonal, was a little sharper than had been looked for, and the slight setback in the metal trades, in iron and steel and engineering, and in the textile trades suggests that some slackening in export activity is to be expected. The pace of our advance towards recovery is likely to slow down, for in the last few months the external conditions have not been too encouraging, and the American uncertainty still dominates world trade. The speeches of the bank chairmen in January were fairly optimistic, but most of them were concerned to emphasise the limits that are set to trade revival by present international conditions.

The political aspects of industry have again been well to the front. The case of iron and steel illustrates the extraordinary difficulty of securing any large concerted measure of internal reorganisation in British industry. Reorganisation schemes have been under discussion for half a dozen years. When, in 1932, the Import Duties Advisory Committee, after some hesitation, gave the industry tariff protection, it was on condition that comprehensive reorganisation should be undertaken. Twelve months ago the industry presented to the Government a scheme (or rather a scheme for creating the machinery of a scheme), which the Chancellor of the Exchequer welcomed as "only the first stage." But the scheme failed to secure the support of many manufacturers, and had to be revised. The Import Duties Advisory Committee has pointedly reminded the industry that the duties expire next October, and has urged the immediate acceptance of the amended scheme in order that a renewal of the duties may be recommended. The scheme has not, however, secured united backing. It was publicly attacked, on January 30, by Sir William Firth, the chairman of the London Iron and

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Steel Exchange, as "being framed on lines that will make co-operation palatable to all, by making it as comfortable and as profitable as possible," as securing profits in the home trade but doing nothing to reduce costs of production, and as being dependent on voluntary price agreements which, if fixed on the basis of the less efficient plants, would not hasten the excision of redundancy. Sir William Firth could see no remedy but for the Government to step in and compel concentration of production. The defenders of the scheme retorted by demanding protection until the industry works out its own salvation, and by urging that voluntary co-operation will in time secure sufficiently good results. This remains to be seen. In the interests of the industry itself the Government should be reluctant to give up their weapon of a conditional tariff so long as doubts exist whether a scheme that is primarily designed for price-fixing and output regulation by quota will lead to the rapid elimination of obsolete plant.

The experience of the coal industry in the same field is not encouraging. The Government has now brought in a short Bill to amend the schemes for the regulation of output and prices under the Act of 1930. Although they admit the necessity of amendment, the owners have been unable to reach voluntary agreement on its form. Nor is the industry any more disposed than it was towards reorganisation. In December the Coal Mines Reorganisation Commission issued an almost despairing account of its struggles to persuade the coalowners to co-operate in promoting amalgamations and in concentrating production by the closing of pits.

The picture now presented by the greater part of the coal mining industry (wrote the Commission) is one of haphazard development of each coalfield by a large number of unco-ordinated units, brought into existence on no rational plan, nearly all working below capacity, competing suicidally, whether in capital expenditure or in prices, or both, for a market that cannot absorb the product of all. If in a coalfield which is being worked like this an authority were created

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capable of exercising control over each in the interests of all, it is inconceivable that no room would be found for lowering the costs of production by getting rid of the waste, duplication and misplaced effort that are the inevitable consequence of the outlook of each being bounded by the horizon of his own concern.

The Mining Association, however, will be satisfied with nothing less than the abolition of the Commission. The West Yorkshire owners have failed to give full support to their district scheme for "partial amalgamation," under which a group of operating units, otherwise independent, would form a central authority to co-ordinate their selling policy, to administer a fund (raised by levy) for closing superfluous pits, and to exercise general control over the development of the area in the common interest. The Commission has taken up the West Yorkshire principle as being the next line of advance, and is moving for its compulsory application there and in several other areas. But the process will be long, and the legal obstacles numerous. It may be noted that the Commission has made a strong point of the need for dealing with royalties, either by nationalisation or by some less sweeping method, as a condition of thorough reorganisation.

In the cotton industry discussions on reorganisation have become entangled with other issues. Cotton spinning employers have formed and, still more remarkable, have maintained for two months agreements to prevent price cutting. If these break down the movement for statutory intervention to enforce majority decisions will become very strong. The need for some common authority to deal with redundancy is now generally admitted. On the manufacturing side, employers are more preoccupied with problems of the enforcement of wage standards against an under-cutting minority. In January employers and weavers jointly approached the Government with a view to the statutory enforcement of agreements, and a Cabinet statement of policy is awaited.

These domestic questions in the cotton industry,

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however, have paled beside the commercial politics of Japanese competition. Every week has seen an outburst, either in the House of Commons or in public meetings in Lancashire, against the Government for its supposed indifference. The President of the Board of Trade, Mr. Runciman, went down to Manchester for two days to interview all the cotton interests and to try to relieve their fears. The Government has been consistent: it adheres to a policy of seeking to temper the fierceness of the competitive struggle by marketing agreements based on a voluntary control of exports; it will only employ severe hostile measures against Japan in Empire markets as a last resort. Commercial bargains, however, are not easily made. It was not until early in January, after more than three months of negotiation, that the terms of a new commercial treaty were arranged between India and Japan. The direct negotiations between Lancashire and Japan, which, it was hoped, would have opened last September, did not begin until February 14. The delays may well try the patience of merchants and producers driven almost to desperation by their unequal combat with Japan's depreciated currency and reckless sales methods. But what else can be done? Sound advice was given by Sir Harry McGowan, the chairman of Imperial Chemical Industries, in a speech on January 27, on his return from Japan. He urged strongly that policies of mere exclusion would not succeed. "Protection is no substitute for efficiency"; British and Japanese exporters must co-operate to share export markets, but British industry must not forget that without the backing of an ever improving productive and selling efficiency there could be no lasting solution.

In the field of industrial relations the calm of 1933—when the number of working days lost through strikes was the lowest on record—has continued. Movements for increased wages are, however, stirring in several industries, especially among the sufferers from the "cuts" of 1931. The railway companies and unions have still been unable to

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agree on new conciliation machinery. In the wool textile industry, after three years of chaos, there is promise of a restoration of collective bargaining. In ship-building there is a deadlock over the introduction of a new type of labour for electric welding. In coalmining the miners have failed once again to persuade the Government to compel the owners to adopt national conciliation machinery, but there is no immediate prospect of a breach of the industry's peace.

Although external trade has notoriously failed to keep step with internal industrial recovery, the figures for 1933 were by no means discouraging. Compared with the previous year, imports of merchandise fell by £25·8 million to £675·8 million, and re-exports by £1·9 million to £49·1 million; but exports of British products rose by £2·4 million to £367·4 million. This increase in exports, which was, indeed, greater in volume than in value owing to the fall of prices, was all the more remarkable in view of the continued high level of tariffs and other obstructions throughout the world, and of the prevailing exchange uncertainty. The abandonment of the gold standard by the United States in March was reflected in an increase of our imports from that country, but her industrial recovery and the expectation of a rise in American prices together produced a simultaneous increase in her purchases from us.

Considerable anxiety, however, has been caused by the more recent American policy of forcing down the gold value of the dollar and later of establishing the gold bullion standard at an exchange rate well below that indicated by comparative price levels. Traders fear enhanced American competition as well as an additional barrier to American markets. It is true that at the start of the new system the pound has followed the dollar rather than the franc and other "gold-currencies"; but the forces that have produced this effect—notably the rush to buy francs in order to withdraw gold from the Bank of France for sale to America—are largely evanescent, and in the long run there can be no evading the commercial con-

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sequences of the under-valued dollar. Yet there are several hopeful signs in the financial sky. The N.R.A. codes and the Administration's spending policy are expected to cause before long a substantial rise of American prices. Industrial recovery in the United States, such as seems to be again under way, means a rising market especially for raw materials, a market in which we share both directly and indirectly through our overseas interests. Finally, although all-round stabilisation cannot be contemplated until relative price systems are brought into closer equilibrium, the re-attachment of the dollar to gold is probably a necessary, though an oblique, step towards that goal.

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I. DOMINION OR REPUBLIC?

OUR present and future relations with Great Britain dominate, and are likely to continue to dominate, the political situation in the Free State. And as the discussion and development of this great central problem proceed, the line of demarcation becomes clearer between those Irishmen who live solely in the past, whose supreme motive is hatred of England, and those who live in the present, whose real inspiration is love of Ireland.

General O'Duffy, the leader of the United Ireland party, defined his attitude towards this important question from a rather material standpoint at Kilkenny on October 22. He stated that his view of the British Commonwealth was that it was good business for us to accept full partnership in it. About the terms of that partnership we had, he said, as much right to say what they should be as anyone else. Our permanent membership of the British Commonwealth, and the stable settlement of our political relations with Great Britain, in his opinion, depended entirely upon whether or not the partition of Ireland was going to endure. They were going to work for the reunion of all Ireland, because they were convinced that only by the reunion of North and South could the permanent prosperity and peace of Ireland be attained. The detailed statement of policy issued by his party on November 11 unequivocally accepts "the voluntary reunion of all Ireland in a single independent State as a member, without any abatement of Irish sovereignty, of the British Commonwealth in free and equal partnership for mutual benefit with Great

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Britain, Canada, South Africa, Australia, and New Zealand." The party proposes to re-open the partition question with Great Britain and Northern Ireland, as the greatest obstacle to the full acceptance by the Irish people of the Commonwealth partnership. It aims at an advantageous settlement, by direct negotiation, of the financial dispute with Great Britain, and a trade treaty which will secure the most favourable terms for Irish goods in the British market. Pending such a settlement, the new party demands the complete remission of land annuities and rates on agricultural land, and a permanent reduction of the original annuities by at least 50 per cent. Other proposals involve the establishment of agricultural and industrial corporations with statutory powers, and the absorption of the able-bodied unemployed in a reconstruction corps for carrying out public works on a national scale. The statement announces the unconditional hostility of the party to communism; it proposes to abolish the proportional representation system of voting; and it contains the usual vague and rather grandiose declaration of ideal aims common to all such documents in Ireland. In this case, these aims are "the abolition of class consciousness and of narrow and intolerant conceptions of patriotism, and the creation of a national spirit based on cordial and constructive co-operation between all sections of the community."

Mr. de Valera's paper, *The Irish Press*, asserts, with some truth, that the economic policy of the new party is stolen from Fianna Fail, and that the remainder consists of scraps garnered from foreign sources. The proposal to abolish proportional representation, a distinctly retrograde step to which Fianna Fail objects, and the suggestion that "disciplined service" is to be inculcated through the Blue Shirt organisation, would seem to suggest that the new movement intends to take a fascist direction; but the party newspaper, *United Ireland*, claims that their scheme of national organisation "will not be of a socialistic or bureaucratic character, but democratic, and will grow

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directly out of the various economic activities of the community."

The Ard Fheis, or annual convention of the Fianna Fail party, which was held in Dublin on November 8 and 9, enabled Mr. de Valera to state once more his attitude towards England, and to deal with the complaints of his followers, who were by no means silent or complaisant. He claimed that the ideal of his Government was enshrined in the proclamation of the Irish Republic in 1916, which guaranteed religious and civil liberty to all citizens. It was true they had not a republic to-day, but they had the opportunity of ruling well or ill. They were preparing the way for the day when there would be a free and independent Irish republic functioning in the country. They were quite willing to co-operate with Great Britain, and realised that the two nations, living so close together, had a great deal in common; all that they asked was that their position should be recognised by Great Britain and the world in general. Regarding Northern Ireland, he said once more that the Government believed that the only solution of the problem was for them in the Free State to work effectively to bring things to such a happy position there, that the six counties would be only too glad to come into the Free State of their own free will. He frankly admitted his disappointment at finding that the removal of the oath had not made co-operation possible between his party and the extreme republicans, and, although pressed hard by the extremist wing, declared that he would insist on order and equal liberty for all. To a demand for the release of the republican prisoners sentenced by the Military Tribunal, he replied that any Government under which politics became a shield for crime must collapse in anarchy, and that his Government would be a firm and impartial protector of the law. At the same time, however, he sought to placate this extreme element by the announcement that all service pensions granted by the Cosgrave Government to able-bodied men

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who fought in the 1916 rising and the civil war would be withdrawn. This proposal is naturally considered vindictive by his opponents, and is likely to lead to much bad blood. Its moral cost will greatly exceed the money saved.

At the conclusion of the Ard Fheis, Mr. de Valera made an urgent appeal for unity between the various political parties in the Free State, and said that, whilst he did not want anyone to sacrifice principles, his aim was to get the Irish people into one national body under one leadership. On behalf of the United Irish party, Mr. MacDermot replied that they had always been ready to support Mr. de Valera in maintaining order, and that they were not inclined to obstruct his domestic policy of economic development, but when it came to his external policy there were fundamental differences as to whether it was consistent with good faith or national prosperity, and Mr. de Valera could not expect his opponents to be false to their convictions on these vital issues.

It is interesting to note that, in spite of their republican declarations, Mr. de Valera's Government have agreed to contribute their share towards the expenses of the new Imperial Economic Committee, a contribution which he justifies on the ground that its aim is to get co-operation between nations on a footing of equality in matters of common concern where it is in their interest to co-operate—a definition which he does not apparently realise might equally be applied to the working of the British Commonwealth as a whole. But the issues between the Free State and Great Britain were raised in a more serious fashion on November 14, when Mr. Thomas, the Dominions Secretary, in answer to a question in the House of Commons, stated that the British Government were advised that the three Bills* recently introduced by Mr. de Valera's Government for the amendment of the Free State constitution, and the abolition of the right of appeal to the Judicial Committee of the Privy Council, involved a further repudiation of the

* See THE ROUND TABLE, No. 93, December 1933, p. 169.

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obligations entered into by the Free State under the Treaty of 1921, and that the Free State in its intention "gradually to eliminate the Crown from the constitution" was "tending to lose" the advantages which membership of the Commonwealth brings. It is difficult to see on what grounds Mr. Thomas made this statement, as no less an authority than Professor Berriedale Keith is of opinion that the amendments to the Free State constitution, to which Mr. Thomas objects, are "manifestly and undeniably within the powers of a Dominion, as laid down by the Imperial Conferences of 1926-30, and as provided in the Statute of Westminster." Canada, as Professor Keith points out, has in fact recently abolished all criminal appeals to the Privy Council.

Mr. de Valera naturally took immediate advantage of this *faux pas* to re-open the issue. In a dispatch dated November 29, addressed to Mr. Thomas, he said that the experience of the last twelve years had made it abundantly evident that lasting friendship could not be attained on the basis of the present relations. The Free State Government (he added) inferred from Mr. Thomas's statement that the British Government had decided not to treat a decision of the Irish people to sever their connection with the Commonwealth as a cause of war or other aggressive action. He asked for a direct and unequivocal statement on the matter. Such a statement would, he said, be the first step towards that free and friendly co-operation in matters of agreed common concern between Great Britain and Ireland which ought to exist between them. Mr. Thomas, replying for the British Government, pointed out that the 1921 Treaty was duly accepted by the elected representatives of the people of the Free State, and confirmed at succeeding general elections, and that the British Government did "not feel called upon to say what attitude they would adopt in circumstances which they regarded as purely hypothetical."

British opinion seems to have been almost unanimous in

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considering this reply a masterpiece of diplomacy, which left Mr. de Valera guessing and gave him no material for propaganda. There are, however, many people in the Free State who think that the British Government lost an excellent opportunity of stating its position decisively and clearly. They feel that, without admitting the right of the Free State to secede from the Commonwealth by unilateral action, the British Government might have pointed out that, if the Free State did of its own free will decide to secede, such a decision would not be opposed by force of arms, though it would involve certain serious and inevitable consequences; that on no account would the British Government permit the Free State to interfere with Northern Ireland; and that such secession would therefore make the partition of Ireland permanent. In fact, the two dispatches illustrate very clearly the difference in the political mentality of the two peoples: the Irish demanding and expecting a logical answer to a definite question, and the English disliking and distrusting logic in the sphere of politics, and applying a policy of *solvitur ambulando* to the issues raised. So, for the present at all events, the people of the Free State must continue to live in a hypothetical republic.

The position was not improved by Lord Hailsham's statement in the House of Lords on December 6 that the Free State Government could not, consistently with the terms of the Treaty, repeal the right of appeal to the Judicial Committee of the Privy Council, and that their right to do so might be raised for determination by the Privy Council itself. This statement provoked Mr. Cosgrave to declare that the only method now appropriate to Commonwealth conditions is conference and negotiation. Any attempt, he said, to subject to a ruling from the Privy Council constitutional matters, arising even between Great Britain and those Dominions which were the creation of the British Parliament, might have a very disastrous effect on the continuance of the Commonwealth. He added that where Commonwealth relations, as in the case

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of the Free State, were based upon an international agreement, the suggestion was intolerable. The incident is revealing because it shows that the British Government's quarrel with Mr. de Valera may easily, through mismanagement, become a quarrel with the people of the Free State, in which the British Government would be contending for conditions that even the strongest supporters of the Treaty in Ireland consider humiliating and indefensible. It is desirable that the British Government should realise that it must deal not only with Irish but equally with Dominion feeling in such matters, for what is Ireland's case to-day may be some other Dominion's to-morrow. Far-seeing Irishmen believe that this fact protects their liberty within the Commonwealth far more securely than would be the case if the Free State were a republic.

Mr. Frank Aiken, the Minister for Defence, who undoubtedly speaks with Mr. de Valera's authority, has recently announced that the next step on the road to national freedom will be to get authority from the people to abolish the post of Governor-General, and to substitute the signature of the President of the Republic for the signature of the British King in the appointment of foreign representatives. The Free State Government, he added, had quietly but effectively turned the King's representative, and the King himself, into automatons ; they signed what they were requested to sign by the Executive Council.

But Mr. de Valera's dispatch did not please the extreme republicans, and Cumann na mBan, their women's organisation, roundly declares that "during Ireland's seven hundred years' struggle she suffered many humiliations, many defeats, but this last appeal to England for mercy and quarter before we proclaim our God-given right to freedom is the greatest insult any leader, even of constitutional movements, ever offered this country." The Irish Republican Army also strongly objects to the new armed force of 15,000 volunteers, which the Government proposes to

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recruit throughout the country. They believe that this force is being organised as a political instrument for the seduction of members from their own organisation, and colour is lent to this view by the fact that the recruiting officers appointed in each area are not ordinary army officers but ex-members of the I.R.A. who fought against the Free State Government during the civil war. It is clearly Mr. de Valera's intention to weaken the I.R.A. by providing its past and present leading lights with lucrative employment. The new force may also provide a counterweight to the regular army, which has so far maintained its integrity, and held itself aloof from political intrigue. Mr. de Valera further enraged the I.R.A. by standing as a candidate, and being elected, for South Down in the Northern Ireland general election against one of their candidates, who was defeated. As he has, apparently, no intention of taking his seat in the Northern Parliament, it is hard to see what purpose this performance can possibly serve except to disfranchise the constituency.

With the Labour party his relations are more friendly. A special committee of three members, representing the Labour party and organisation, meets him once a fortnight in order to discuss policy and legislative developments, and so far the proceedings of this conference are reported to have been amicable, but the extremist elements declare that this result has been obtained only by the complete abdication of Labour leadership and policy, and by acquiescence in the "vicious industrial system," which, they claim, Mr. de Valera's Government is seeking to build up in the Free State.

The death of Mr. Joseph Devlin, M.P., has removed from the Irish political world the last surviving leader of the Irish Parliamentary party, and the most prominent Nationalist figure in Northern Ireland. A man of many gifts and generous heart, he devoted them with unselfish zeal to the service of his country and his native city, Belfast, where he was universally respected. Practically every political

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party in Ireland was represented at his funeral, for in death alone we are not divided.

II. MARTIAL LAW

THE most striking commentary on Mr. de Valera's domestic policy is the fact that after two years of his government the country is virtually under martial law, and that all political offences are now tried by the Military Tribunal, for the creation of which he could hardly find words strong enough to condemn Mr. Cosgrave's Administration. The truth of the matter is that without the assistance of this Tribunal he would not be able to govern the country, for the I.R.A. and their associates, by intimidating jurors, who are no longer even partly protected by the suppression of their names, have made any other form of trial impossible. In addition, armed attacks for political reasons have again become prevalent. In October, armed men attacked a dance given by a supporter of the United Ireland party at Ballingar, County Galway, and wounded five people; two young men were assaulted by armed men at night in Listowel, County Kerry, and two other young men, members of the Blue Shirt organisation, named O'Reilly and O'Leary, were taken at night from their homes at Innishannon, County Cork, by armed and masked men, and brutally treated. O'Reilly died in December as a result of his injuries, and is naturally looked upon as the first martyr of the Blue Shirt movement, of which he will probably become the Horst Wessel. It is significant that O'Reilly and his comrade had been mentioned in *An Poblacht*, the I.R.A. paper, a few days before as prominent supporters of General O'Duffy's movement. Those responsible for these assaults have been neither discovered nor punished, but the Blue Shirts have refused to be provoked into reprisals. In November a party of armed men raided the rooms of an official of the Young Ireland Associa-

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tion in Cork, and ransacked the premises ; and a prominent Wexford Blue Shirt was shot down one night while walking home. In the first week of January no less than nine outrages were perpetrated against supporters of the United Ireland party in various parts of the country.

One would naturally have thought that the Government's reaction to conduct of this kind would have been to proclaim the I.R.A. an illegal organisation, but they proceeded instead, on December 8, to ban the Blue Shirt organisation, the Young Ireland Association, which is the youthful wing of the United Ireland party and was originally known as the Army Comrades Association, or A.C.A., and afterwards called the National Guard.* The United Ireland party, in an official statement issued immediately afterwards, pointed out that the Young Ireland Association was a branch of their own organisation, *i.e.*, of a constitutional Opposition party, and that it had the full confidence of their national executive, by which it was absolutely controlled. No ban or suppression, they pointed out, could make illegal things which were of their nature lawful, and the ideals and the methods of Young Ireland were fully within the laws, both of God and of the land. After commenting on the fact that the Government allowed two communist headquarters to remain open in Dublin, and every variety of communist activity to be carried on throughout the country, the statement proceeded to declare that there was nothing illegal about a blue shirt, and that no ban or ordinance could make it illegal to wear one. On this issue it is now clear that no compromise is possible, for the blue shirt has become the definite emblem of Mr. de Valera's opponents, and whatever change is made in the title of their organisation it must remain their uniform. The banning of the Young Ireland Association was justified by the Government on the ground that it was meditating a *coup d'état*, but this seems a poor defence, in view of the fact

* See THE ROUND TABLE, No. 92, September 1933, p. 880, and No. 93, December 1933, p. 165, *et seq.*

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that this particular body is now part of the constitutional Opposition, is practically unarmed, and has not displayed any serious military activity.

Prior to the banning of the Young Ireland Association, police raids were made on its offices and on the houses of General O'Duffy, Mr. Blythe, and other prominent members of the United Ireland party. The Secretary of the Young Ireland Association, Commandant Cronin, was charged before the Military Tribunal with sedition and with being a member of illegal organisations. He was found Not Guilty on the major charge of sedition, but Guilty on the charges of membership of the National Guard and Young Ireland Association, for which offence he was sentenced to three months' imprisonment if he did not enter into recognisances, and as he refused to do this he is now in gaol. It transpired during the trial that, whilst in prison, Commandant Cronin's blue shirt had been forcibly removed by the authorities. Mr. Denningan, the political correspondent of *The Irish Press*, Mr. de Valera's paper, who was called for the defence, admitted that he was the author of a statement in that paper to the effect that the Government proposed to allow a short period to permit members of the Young Ireland Association to leave it, but when asked to disclose the official source of his information he claimed privilege and refused, after consulting his editor, to disclose the name of his informant. The tribunal found him guilty of contempt of court, and sentenced him to a month's imprisonment, a sentence which has been unanimously condemned by Irish journalists.

As soon as the Young Ireland Association was banned, the United Ireland party decided to dissolve it, and form a new organisation, to be known as the League of Youth. They also decided to serve a writ on the Attorney-General, in order to secure from the High Court a declaration that the League of Youth was a lawful body, and so stop in advance any attempt by the Government to declare it illegal. The writ, which has since been issued, bases its claim on

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Article 9 of the Free State Constitution, which guarantees the free expression of opinion and the right to form associations for purposes not opposed to public morality.

But the High Court was soon called upon to decide an even more important question. On December 16, when General O'Duffy, wearing a blue shirt, attempted to address a political meeting at Westport, County Mayo, he and two of his supporters were at once arrested by the civic guard and removed to the local police barrack, amidst scenes of considerable excitement. An application was immediately made to the High Court for an absolute order of *habeas corpus*, which was finally heard before Mr. Justice O'Byrne. He decided, on December 21, that the civic guard officers had not satisfied him, as required by the constitution, that the prisoners were detained in accordance with the law, and therefore ordered their release. His conclusion was that General O'Duffy was arrested, not because he was suspected of being a member of an illegal organisation, but because he went into Westport wearing a blue shirt to address a meeting. He was satisfied that both the arrest and the detention were illegal. General O'Duffy is now bringing legal proceedings for false imprisonment against the civic guard officers who arrested him.

The High Court proceedings were, however, no sooner terminated than a summons was served on General O'Duffy, calling on him to appear before the Military Tribunal on January 2 to answer charges of belonging to two illegal associations, namely, the Young Ireland Association and the National Guard, and of sedition in the shape of alleged incitement to murder Mr. de Valera, in a speech he made at Ballyshannon, on December 9. But the General's legal advisers promptly countered by asking the High Court to make an order prohibiting the Military Tribunal from hearing and determining the charges, on the ground that the offences charged against General O'Duffy did not come within their jurisdiction. When the Tribunal met, on January 2, the day for which the hearing of the O'Duffy

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case had been fixed, the Court, through its President, said that it was satisfied on the question of its absolute jurisdiction in the case, under Article 2a of the constitution,* but that, in order to avoid a clash, the case would be allowed to stand over until further notice. The whole matter illustrates clearly the danger of attempting to set up a military jurisdiction, separate and self-contained, alongside the normal civil jurisdiction, particularly when it is sought to use the military jurisdiction for purely political purposes. The High Court, after several days legal argument, reserved judgment.

Whilst these proceedings were taking place, the Government, no doubt to show its impartiality, arrested twelve republican youths from Tralee, County Kerry, who were brought before the Military Tribunal and charged with riotous and unlawful assembly on the occasion of General O'Duffy's visit to Tralee, on October 6.† They were duly convicted, and received sentences of imprisonment ranging from seven to nine months. These convictions led to organised protests in Tralee amongst Mr. de Valera's supporters and others. It is notorious that County Kerry has been in a state of semi-anarchy for some time, and these developments moved Mr. de Valera to address a meeting in Tralee on December 16. After referring to the long and painful list of outrages and crimes that had happened in Kerry during recent months, he declared that the authority of the Government had been attacked on both sides. They were determined to protect that authority, and to enforce it against everybody. They wanted ordered society, without which there could be no future for the country. There were only two alternatives. Either they were going to have a democracy, or there was going to be a dictatorship, in which the faction that could get the strongest support and most weapons at its disposal was going to be on top. Which was it to be: ordered democracy, or anarchy, followed

* See THE ROUND TABLE, No. 85, December 1931, p. 142.

† See THE ROUND TABLE, No. 93, December 1933, p. 176.

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inevitably by one section imposing its will upon the other ? This appeal is a sad commentary on the condition into which the country has been allowed to drift. Unfortunately, it discloses no realisation of the fundamental fact that the great majority of our people would strongly support the Government if they proposed to deal firmly and fairly with all armed disturbers of the peace and unlawful associations, no matter how grandiloquent the titles under which they disguised themselves.

The Government have suppressed *An Poblacht*, the I.R.A. weekly journal, on several occasions, and *United Ireland*, the United Ireland party organ, once. *An Poblacht* now declares that this conduct indicates the marked anti-republicanism of the Government, who, it claims, like all political pervers, are more hostile to their former comrades, who have remained true to their national faith, than they are to avowed traitors and imperialists. Its publishers, the Republican Press, Limited, somewhat inconsistently, applied to the High Court for an injunction restraining the police authorities from trespassing on the premises or interfering with the printing of *An Poblacht*, but this was refused. In spite of these events, the United Ireland party does not seem to be making great progress, although General O'Duffy has admittedly improved its organisation, and has attracted large numbers of young men to its ranks. His blue shirts are active, well disciplined, and so far under restraint ; but he himself shows little sign of political development. One of the most effective speakers on the United Ireland side is Mr. James Dillon, T.D., John Dillon's son, who is self-possessed, has a good voice and presence, and tells his audience very plainly and without rhetoric exactly what they want to know. He is bound to go far, for he has both political tradition and ability. But it is not by oratory that Irish elections are really won. There is always in the background the great mass of silent voters, who do not attend meetings, who vote according to their conscience or their pocket, and whose reactions are at

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present unpredictable. It is the "have-not" element amongst these people to whom Mr. de Valera appeals, for he has given them cheap food, cleverly distributed relief works, a wide scheme of unemployment relief, and the opportunity, which is so dear to every irresponsible Irishman, of attributing all our misfortunes to England's wickedness. As long as these conditions continue there is little likelihood that this element will change its allegiance, and every chance of another general election.

III. FINANCIAL AND ECONOMIC DIFFICULTIES

THE most serious financial embarrassment that has yet befallen Mr. de Valera's Government is the fact that the Fourth National Loan, of £6,000,000, bearing interest at $3\frac{1}{2}$ per cent. per annum and issued at 98 per cent., was not fully subscribed. More than half the loan remained in the hands of the Irish banks, who underwrote the issue. The three previous loans, issued by the Cosgrave Government, were all over-subscribed. The recent loan was apparently issued on the assumption that the credit of the Free State was still as good as it was under the last Government, but the response clearly indicates that this is not so, and trade conditions reinforce this view. During the first nine months of 1933, cross-channel and coast-wise trade entering and leaving the port of Dublin declined by 239,759 tons, as compared with the previous year; the dues fell by £6,490; and the number of ships using the port by 937. Foreign trade, on the other hand, increased in the same period by 114,210 tons, and the number of foreign ships by 241. In August, the number of people in the Free State in receipt of public assistance had increased by 27 per cent., as compared with August, 1932. The trade returns show that the total trade of the country for 1933 was £55,439,953 compared with £102,521,354 in 1930. In 1932, trade had already shrunk from £87,531,776

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in 1931 to £69,514,450. Moreover, the annual adverse balance of trade increased from £11,031,076 in 1930 to £16,138,353 last year. Last year's figure was some £500,000 worse than that of the year 1932. Thus in three years the external trade of the Free State has been almost halved, and the adverse balance has increased from 10 per cent. to 28 per cent. The main reason for this heavy drop in trade is the virtual collapse of the cattle business. The Government have sought to bolster it up by bounties, which are being paid by the Free State taxpayer, but now that a quota system for fat cattle has been introduced in Great Britain to protect the British farmer even bounties will be of little avail.

Great Britain continues to be virtually our only customer, taking 92 per cent. of our exports, as against 8 per cent. to all other countries. During last year we purchased goods to the value of £1,757,384 from Germany, who took goods valued at £171,074 in return. In 1931 our trade with Great Britain was more valuable than the trade of any other Dominion save Canada, and, had we seized the golden opportunity offered at Ottawa, we should probably have benefited more than any other Dominion. As it is, our share in Great Britain's total purchases has fallen from 4.19 per cent. in the first nine months of 1931 to 3.82 per cent. in the corresponding period of 1932, and 2.56 per cent. last year. Every Dominion except the Free State now enjoys a preference in the British market, while we are virtually regarded as a foreign country. It is hard to envisage anything but national bankruptcy unless the dispute with England is settled, and of this there is no sign whatever.

Against these hard facts Fianna Fail apologists, ignoring completely the acts of their own Government, argue that, as our external trade declined by £393,000,000 between 1920 and 1931, the further fall since 1931 is only a continuation of this tendency, which has been brought about by international conditions, and that the only way to save

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the situation is to alter completely the economic policy of the country by making it more self-contained, and by not relying on external trade. They contend that the economic difficulties here began before the so-called "economic war" with England, and that this event only led to an acceleration of the rate of change in our economic organisation. They state that export bounties on cattle are being paid only in order to prevent distress during the intermediate period, and to stop violent dislocation whilst other plans are being developed. The Government now aims at the repatriation of Irish capital invested abroad by encouraging it to invest in Irish enterprise through the new Industrial Credit Corporation, and it is also going to establish an Irish insurance system, which, it is claimed, will be both cheap and safe. Irish manufacturers are clamouring for more legislation on the lines of the Control of Manufacturers Act of 1932, under which no foreign firm can start a new business or alter the character of any existing one without a licence. Any firm whose capital is not 51 per cent. Irish is treated as foreign. Mr. Lemass, the Minister for Industry and Commerce, recently announced to a convention of manufacturers that the Government hoped that within twelve months the full requirements of the Free State in cotton piece goods would be woven here from yarn spun in the country. Glass, cutlery and rubber goods were also to be manufactured, and projects were in preparation for the assembling of motor cars in the Free State. When these were working there would, he stated, be a definite embargo on the import of assembled motor cars.

Orders for 80 per cent. of the equipment for the new sugar beet factories, which will cost over £1,000,000, have been given to Germany, and 20 per cent. to Czechoslovakia. In return for these orders, Germany is to take 300 tons of our butter and 5,000,000 eggs in excess of the normal quotas. In order to provide a market for the surplus oat crop*

* See THE ROUND TABLE, No. 93, December 1933, p. 180.

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of last year, which cannot be sold, the flour millers are to be compelled to mix a certain quantity of hulled oats with the wheat, which will produce a kind of brown bread. This has now been done. British imports will be regulated by a quota system in retaliation for the quota imposed on Irish fat cattle entering England. And so the vicious circle of economic attack and counter-attack revolves, while the man in the street is left wondering if there are any statesmen left in these islands.

All these important questions are now engaging the attention of the Dail, which reassembled on January 31. It has a heavy legislative programme to deal with, including a Bill to revise the electoral system according to population. The revision, which, under the constitution, must be made every ten years, will reduce the membership of the Dail. Another Bill is to amend the judicial system, which will probably involve the appointment of two new High Court judges, and so satisfy some of the hungry legal sheep in the Government fold. The farmers will, however, be more interested in the fact that the grant for the relief of agricultural rates has not been increased, although there is every chance that the rates themselves will be. On the other hand, it is pleasant to record that the Government's very comprehensive housing scheme, which will eventually abolish our disgraceful city slums, is ahead of schedule, and is giving much-needed employment in urban areas.

Amidst these rather gloomy conditions one must chronicle another bright spot. The now almost moribund Gaelic League, which ostensibly exists for the purpose of promoting the use of the Irish language, has started a campaign for the abolition of jazz dancing, the launching of which was the occasion for some very severe strictures on Mr. Sean McEntee, the Minister for Finance, whom Mr. Sean O'Kelly, the Secretary of the Gaelic League, stated had a "soul buried in jazz." Why poor Mr. McEntee should have been selected for censure it is difficult to see, for his other colleagues, except Mr. de Valera, who, alas!

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does not dance at all, are all equally addicted to this terrible pastime. But the Minister for Posts and Telegraphs, Mr. Boland, promptly retaliated by cancelling certain addresses on Irish culture that Mr. O'Kelly was to have delivered from the Dublin broadcasting station, a place from which the strains of jazz have been known to proceed. At the same time it is notified that our future supply of jazz *via* the ether is to be severely rationed. The conclusion would seem to be that we shall eventually be permitted to listen neither to native culture nor to native jazz. And yet, as a nation, we were once believed to possess a sense of humour.

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February 1934.

CANADA

I. THE POLITICAL SCENE

FROM July, 1930, when the Conservative Ministry of Mr. Bennett was placed in power by the voters of Canada, up to midsummer of last year, there was a state of equilibrium and almost complete lack of movement in Canadian politics. The country was prepared to give the Government a fair field for the exercise of its decisive mandate to try a policy of high protectionism as a remedy for the Dominion's economic troubles; the national emergency created by the depression, and the resulting unemployment, were so serious that the Opposition forces hesitated to court unpopularity by giving rise to any suspicion that they were animated by a factious spirit and indifferent to the gravity of the economic situation. So, during one special and two regular sessions, they gave a reasonably free hand to the Government for most of the measures that it sponsored for the amelioration of the depression, and contented themselves mainly with such criticisms of its policies and administrative methods as they felt to be merited. However, when after a trial of two and a half years it had become plain that high tariffs had not produced economic salvation for anybody but the particular industrial interests they aided, that unemployment instead of being wiped out had increased, and that the plight of the agriculturalists had gone from bad to worse, signs of popular discontent with Conservative policies began to manifest themselves; and last session the Liberals, fortified by this knowledge, adopted in Parliament more aggressive tactics, and began to challenge

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outright the wisdom and efficacy of the Government's policies.

Ministers and their supporters had been praying assiduously for signs that the bottom of the depression had been reached, and that an improvement in business and economic conditions would provide an effective justification for their policies and a defence against Opposition attacks. So they were greatly heartened when there began in the spring an upward movement in business, which continued through the summer and autumn and by the end of 1933 had brought the official index of the physical volume of business to a level roughly 27 per cent. above the low point reached in February of last year. But welcome as this improvement is, it still leaves economic conditions very far below any level that would be counted in Canada as decent prosperity, and it has apparently not availed to check the steady erosion of popular support, which the Ministry has been experiencing. At any rate, three Federal by-elections which were held in October seemed to offer convincing evidence that the tide of popular sentiment, perhaps more from dissatisfaction with Conservative policies than from any enthusiasm for the Liberals, was flowing against the Government.

Of these by-elections the most ominous was in the province of New Brunswick, of which Mr. Bennett is a native son; the Restigouche-Madawaska division, which the Conservatives had carried by 548 votes at the general election, was captured by a Liberal candidate with a majority of 6,472. In the Yamaska division of Quebec the Liberals, whose candidate had carried the seat at the general election by the bare majority of one, and forfeited it for corrupt practices, were on the defensive; but despite the handicap entailed by their soiled political dove's insistence on running again, they managed to elect him by 84 votes over a good Conservative candidate. In the Mackenzie division of Saskatchewan, which had been held by Mr. Milton Campbell, an agrarian friendly to the

Conservative Ministry, who appointed him to the Tariff Board, the real fight proved to be between the Liberal and the nominee of the new radical party, the Co-operative Commonwealth Federation, and the Government had to face the grim fact that their candidate, who polled less than 15 per cent. of the total votes cast, had not been a serious factor in a contest in a typical rural constituency in the West. Victory perched upon the Liberal banners, and a majority of 1,614 demonstrated the ability of the Liberals to cope with the competition of the new party in a division that seemed to offer the latter an exceptionally favourable fighting ground. They now profess that they have taken the measure both of the Conservatives and of the C.C.F., and that the country is clearly prepared to shun extremist policies and give liberalism and its programme another chance. Further encouragement has also come to the Liberals from the provincial elections in Nova Scotia and British Columbia. In both of these provinces, Conservative Ministries were swept from power and replaced by Liberal Administrations, while in British Columbia the Conservatives were so badly defeated that they were only able to return one solitary member to a house of 47.

The Liberal leaders, however, realise that with a new radical party definitely in the field they must move leftwards, and after the official party programme had been discussed by the National Liberal Federation a revised edition was announced to the country by Mr. Mackenzie King. In the main it restated the party's traditional aims and policies, but it specifically pledged it to a reduction of the tariff to the level prevailing before the Conservative régime began, to the establishment of a central bank and a national investment board, and to electoral reform through the introduction of proportional representation and the alternative vote. There has, however, been evidence of a certain cleavage of opinion on questions of policy. Mr. Mackenzie King prefers to stand by the ancient

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gods of liberalism and has the sympathy of the Quebec wing of the party and the older members generally, while the younger elements have a predilection for full-blooded "planning" on the model of the N.R.A. During the summer the Liberals refurbished their organisation and, a novel departure in Canadian politics, held a Liberal summer school, an experiment which proved successful and which the Conservatives felt it necessary to imitate.

The new C.C.F. was also very active in 1933, and at its first national convention, held at Regina in July, it provided itself with a definite programme, and with a permanent leader in the person of Mr. J. S. Woodsworth, who as leader of the Labour group in the Federal Parliament since 1921 has earned the respect of all parties. As the C.C.F. programme is frankly collectivist, there seems no valid reason why the new party should not take the title of "socialist." It has a body of able and zealous propagandists at its disposal and commands substantial strength in Ontario and the western provinces, but it lacks both reasonable press support and an effective organisation; in the absence of any serious following east of the Ottawa river it cannot hope at the next election to challenge successfully the supremacy of the two historic parties. At present the strength of parties in the House of Commons is as follows:—Conservatives, 136; Liberals, 90; C.C.F., 15; Independents, 2; Vacancies, 2. In the Senate the Government, despite seven unfilled seats, have 51 supporters against 38 Liberals.

The most important business before Parliament will be the decennial revision of the Bank Act, which was postponed to await the report of the Macmillan Commission on Banking and Monetary Problems. In the Commission's report, which was published in November, the most important recommendation, from which Sir Thomas White, a former Minister of Finance, and Mr. Beaudry Leman, an ex-President of the Canadian Bankers Association, dissented, was that there should be established a central bank of

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rediscount which should have its capital privately subscribed and should function on an independent basis. Other minor reforms of the Canadian banking system were advocated, and it was suggested that a special system for agricultural credits was desirable and should be the subject of a further inquiry. Now the Canadian banks have made no secret of their dislike of the project of a central bank, particularly of the proposal that it should be given a monopoly of note issue. The vocal protests of their spokesmen against the adoption of such an experiment with a system that has successfully stood the test of an unparalleled economic crisis have been supplemented by vigorous hostile literary propaganda. However, not only has Mr. Bennett explicitly pledged his Government to introduce legislation establishing a central bank, but the Liberals and the C.C.F. are also committed to the idea, and the best that the banks can hope for is to secure a structure for the bank that will not seriously interfere with their own scheme of operations. The radical elements in Parliament will press for an institution that would have its capital subscribed by the State and be under the firm control of the Government; but it is probable that the Government will oppose this plan and follow the scheme outlined in the Macmillan Report. In addition the whole Bank Act will be subjected to review.

In view of the new monetary programme that has been sponsored by President Roosevelt, the Canadian Government will be forced in the near future to make important decisions about Canada's monetary policy. They cannot disregard developments in the United States, in view of the close commercial and other relations between the two countries. Authoritative financial experts predict that the Canadian dollar, which has more or less kept step with the downward devaluation of the American dollar in terms of gold, will continue to stick close to it, even if the American dollar's gold value falls below 60 cents, and it is considered probable that under these circumstances the Ministry will seek authority from Parliament to follow the example of

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the United States and reduce the gold content of the Canadian dollar. So it can be forecasted that banking and monetary problems will play a large part in the discussions of the session.

There are other developments at Washington that may provide the Canadian Parliament with material for abundant discussion and controversy. If, before the session at Ottawa ends, President Roosevelt's influence is strong enough to secure the ratification of the St. Lawrence Waterway Treaty against the formidable opposition that has developed to it, the Canadian Government can scarcely avoid carrying out its part of the bargain and submitting the Treaty to Parliament. It will then assuredly become one of the dominant issues of the session and prolong its course; for, while the Treaty has strong support in certain parts of Canada, there is no evidence that the province of Quebec has in any way abandoned its hostility, and Mr. Bennett might find some difficulty in preventing a revolt among his French-Canadian followers in Parliament.

The Opposition profess to have abundant material for a comprehensive arraignment of the Government for a variety of sins of omission and commission, but they will concentrate their main attacks upon what they regard as the baneful results of its high tariff policy, the flaws in its administration of unemployment relief, and its wheat marketing policy, which is wrapped in deep mystery but which seems to have involved it in dangerously heavy commitments in the wheat market. Exhaustive debates upon tariff policy are inevitable, and the Opposition will insist upon a grand assize into the relations between the Tariff Board and the Department of National Revenue, in which evidence of serious friction has been revealed. The Tariff Board has been functioning regularly since July and has by common consent shown both vigorous industry and judicial impartiality, as spokesmen of British interests who have appeared before it have testified. But it has encountered persistent obstruction from certain officials of the

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Department of National Revenue, sympathisers with a high tariff policy, who have declined to implement its orders and challenged its authority to interfere with their rulings. Faced with such obstruction, Judge Sedgewick, the chairman of the Board, on January 7, courageously made a strong protest that the Board was not getting from government officials the co-operation to which it was entitled. He is evidently determined to bring the issue to a head.

Farm marketing schemes are likely to be continually to the fore. For one thing, the Government will be pressed to reveal its policy for implementing Canada's commitments under the international wheat agreement, and has to reckon with a formidable agitation in the prairie provinces for a national wheat board. There has also developed among other groups of farm producers a campaign for a comprehensive farm marketing scheme, whose sponsors want the ideas embodied in the British Agricultural Marketing Act applied to Canada with the necessary adaptations. So complicated, however, are the issues involved that the Government will probably decide to be content with a limited experiment and to defer the evolution of a national marketing scheme.

Then, quite unexpectedly, Parliament has been provided with another bone of contention by the Ministry's sudden decision to resume the traditional practice of conferring honours and decorations upon Canadians, who for fifteen years have been debarred from accepting them by a vote of the Commons. Mr. Bennett has justified his action on the ground that this vote only bound the Government and Parliament of the day, but Mr. Mackenzie King has sharply challenged both the propriety and the wisdom of his course. He complains that the Government, in presenting the country with a *fait accompli*, has offered Parliament a grave affront. He is evidently preparing to raise the constitutional issue that Ministers, in giving advice to the Crown about the exercise of the prerogative, are responsible to the House of Commons and must take cognisance of its expressed

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will, which as far as the Government knew was against the restoration of titles. The list of Canadian names that the Government submitted was carefully compiled and gave no ground for criticism, but, judged by press comments, the country's reception of the move is not enthusiastic. Many Conservatives have an uneasy feeling that the Government has gratuitously presented its opponents with very useful ammunition for an election campaign, as they will accuse Ministers of being more concerned with gaudy favours for their friends than with the fate of the unemployed and the hard-pressed farmers.

Since the present parliament has now lasted more than three and a half years, the normal political warfare of the session will be spiced with party manoeuvres and jockeying for position against the day of the general election, which must come within eighteen months. Very few Canadian parliaments, however, have been allowed to live out their full statutory terms, and an election before the end of 1934 cannot be dismissed as an impossibility. Indeed, some Liberal strategists regard it as a certainty, under a conviction that the Conservatives will prefer to risk the ordeal while they still retain control of the three provincial governments of Ontario, Saskatchewan and New Brunswick, which all must seek new mandates this year and may well pass into Liberal hands. On the other hand, if a progressive recovery of business were assured, the Conservatives would prefer to delay the election as long as possible, in order to be able to claim credit for rescuing the Dominion from a grim pit of depression. Now another factor has been introduced into their tactical calculations by the re-emergence of the St. Lawrence Waterway issue. It is the sort of project that wins votes in a Canadian election, by reason of the hopes raised that large sums of money will be spent in certain localities, and Ministers might see a prospect of reviving their fortunes by making a mandate for the scheme the main issue of a general election.

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II. THE TARIFF BOARD AND TARIFF POLICY

THE new Canadian Tariff Board, which was provided for in legislation passed in 1931 and designated as the tribunal to interpret the United Kingdom-Canada trade agreement of 1932, has now been in commission for some six months, and it may not be too early to consider the nature of its task and its prospects of discharging it satisfactorily.

The new board is not the first tribunal of its kind. In 1927 there was set up by the Administration of Mr. Mackenzie King an advisory board on tariffs and taxation which functioned until the change of government in 1930. Although in introducing the legislation setting up the present board Mr. Bennett emphasised the great gulf fixed between it and its predecessor there is clearly a strong family likeness. The new board, like its predecessor, is essentially a fact-finding body. So far as tariff questions are concerned, its function, like that of the former board, is to find the facts and make recommendations on the basis thereof. There is this significant difference, however, that while the facts found and the recommendations made by the former board are a Cabinet secret to this day, the reports made by the present board are to be tabled in Parliament immediately they are made. It is also to be noted that, whereas the old board provided a forum in which anyone, in his capacity as a consumer, could make his views known, regardless of direct interest in the question at issue as manufacturer or importer, the new board has made it clear that no one not directly concerned can claim any *locus standi*. In other words, the new board is intended to be much more judicial in character than its predecessor, and to that end there has been appointed as chairman, not an active member of any political party, as were the two successive chairmen of the former board, but an Ontario

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High Court judge, Mr. Justice Sedgewick, who has already given striking evidence of the complete independence and soundness that were confidently expected of him. His two colleagues are Mr. Milton N. Campbell, an ex-Progressive member of Parliament from Saskatchewan, and Mr. C. P. Hébert, a junior member of a well-known importing firm in Montreal and an *alumnus* of New College, Oxford, who may be regarded as representative respectively of western and eastern Canada. Though it cannot be said that the ideal of "taking the tariff out of politics" has been achieved—the functions of the board are, as has been stated, purely fact-finding and advisory—nevertheless the new board marks a very large step in the direction of the judicial determination of what tariff rates should be.

It was this judicial quality of the new tribunal that made it possible to designate it as the authority to interpret and give effect to the United Kingdom-Canada trade agreement of 1932. In article II of that agreement, it will be recalled, the Canadian Government undertook that, except in the case of industries not fully established, protective duties should not exceed such a level as would give United Kingdom producers "full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production." The principle was also laid down that protection should be afforded only to those industries which are reasonably assured of sound opportunities for success. So much for the agreement. As for the intention of the parties to it and the function of the Tariff Board in connection therewith, Mr. Bennett has expressed himself as follows:

I told Mr. Baldwin: "I am prepared, if you will give us a preference for all Canadian commodities in your market, to ask the Parliament of Canada to ratify an agreement that we will give you an equal chance with Canadians in our market for your goods, and I will set up a Tariff Board to say what is an equal chance."

It is to be noted, further, that United Kingdom manufacturers are given the right to bring their applications before

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the Tariff Board, which presumably is to hold the balance between United Kingdom and Canadian interests just as judicially as an Admiralty Court does between British and, say, French interests.

Such then is the task set the board. What does it involve, and what prospect is there of its being satisfactorily discharged? It is, of course, much too early to dogmatise. Only one important application invoking article 11 of the agreement has so far been made, in respect of woollens, and it is only in its early stages. Up to the present, attention has been confined to the endeavour to arrive at a common method of computing costs—no light problem. No attempt has yet been made to work out in practice exactly what is meant by the words of the agreement, "full opportunity of reasonable competition." It has become clear, however, that very divergent views are held. British manufacturers maintain that Canadian customs duties are not to exceed such a level as will equalise costs as between them and Canadian manufacturers. This interpretation is rejected by the Canadian manufacturers, who argue that it would lead to widespread dislocation, and to the disruption of many well-established and efficient Canadian industries. They further argue that it is an entirely erroneous interpretation of the actual terms of the agreement. Attention is drawn to the fact that in article 10 the Canadian Government undertakes that "protection by tariffs shall be afforded against United Kingdom products only to those industries which are reasonably assured of sound opportunities for success." This, it is urged, must mean that "industries which are reasonably assured of sound opportunities for success" are to be "protected," *i.e.*, safeguarded, *i.e.*, assured of the Canadian market, or at any rate, of as much of the Canadian market as is represented by goods that can be economically produced in the Dominion.

If article 10 were the whole story, the foregoing interpretation of the general intention of the parties to the

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agreement would be hard to gainsay. But there is article II, and it says, as has already been stated, that the Canadian Government undertakes that protective duties—the idea of protection is still adhered to—“shall not exceed such a level as will give United Kingdom producers full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production.” The British interpretation of this, given above, is based on the fact that the only indication of what is meant by “full opportunity of reasonable competition” is the addition of the words “on the basis of the relative cost of economical and efficient production.” In other words the British view is that the only factor to be taken into account in determining what is “reasonable competition” is the comparative production costs, to the exclusion of all other considerations, such as the desirability of maintaining a certain category of employment in Canada, or of preventing the loss of capital invested in Canadian industry. On this view, the single and simple principle to be applied is what the Australian Tariff Board in its last annual report calls the “equalising principle of tariff making,” *i.e.*, the equalising of production costs, so as to bring the price of the imported article to the same level as that of the local product.

The application of such a principle would, in the opinion of the majority of Canadian industrialists, lead to far-reaching dislocation of, and loss of capital invested in, Canadian industry; they maintain that the whole tenour of the Ottawa Conference report, and in particular the blessing it gives to “industrial co-operation within the Commonwealth to secure the best division of industrial activities among the several parts and the ordered economic development of each,” negative an interpretation of the actual agreement that will result not in “ordered economic development,” but in dislocation and curtailment.

To take a concrete example, which as a matter of fact has been cited to the Tariff Board in the course of the hearing of the recent British woollens application: the

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Canadian clothing industry, with some 1,000 plants, employing 50,000 people and producing a total of \$200,000,000 worth of goods, supplies 98 per cent. of the total clothing requirements of the people of Canada. Incidentally, it provides a market for 95 per cent. of the woollen and worsted cloth made in Canada. The spokesman of this industry maintained with considerable vigour that if the tariff on competing imports were based exclusively on the principle of equalising production costs, it might easily lead to the shutting down of a substantial proportion of the plants now operating, with consequent curtailment of employment and loss of capital. Assuming for the sake of argument that such a fear is well founded, does the formula "full opportunity of reasonable competition" require the Tariff Board, and, upon its recommendations, the Government of Canada, to apply the equalising principle regardless of consequences; or is it at liberty, under the agreement, to take into account other considerations, such, for example, as that it is expedient in the national interest that there should be a Canadian clothing industry capable of supplying the bulk of the needs of the Canadian people, and of providing employment for thousands of people, for whom alternative occupation is not in sight? If the "equalising principle" view is correct, it would appear that such considerations are not admissible.

While this all-important question has not been ruled upon by the Canadian Tariff Board, the Australian Tariff Board, in its report for 1933, has expressed its view in clear-cut terms. "While heartily supporting the competitive principle in tariff-making," it "rejects the idea that duties should be merely equalising." "In established efficient industries, where capital and overhead charges enter largely into production costs, the division of the present market between local and overseas producers, by restricting local output, would increase the costs of production, necessitating higher selling prices and the imposition of higher duties to restore reasonably competitive

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conditions." An example given is that of the galvanised iron industry. Inquiry has shown that the costs of production on a domestic output of 60,000 tons per annum would justify a selling price £2 13s. 1d. per ton lower than on half that output, or 30,000 tons per annum. If, then, duties were imposed that would just bring the price of imported galvanised iron to the same level as that of the local product based on an output of 60,000 tons per annum, and the effect was to reduce local output to 30,000 tons per annum, it is clear, the board considers, that "the duty would need to be increased by £2 13s. 1d. per ton to ensure price equality under the new conditions." Such a procedure, the board declares, "would be farcical, for it would involve considerable dislocation of industry, at least temporary idleness of large numbers of trained operatives and of some very highly valuable plant; while ultimately the duty rate would have to be increased and for some appreciable period the cost of galvanised iron, whether imported or local, would be higher than necessary. In the result, the view taken by the Australian Tariff Board is that "a reasonable duty to protect an efficient economic industry should be high enough to raise the landed cost of an overseas product to a level which will

- (a) compensate the local manufacturer for the higher cost (if any) of Australian labour;
- (b) offset the higher costs (if any) of raw materials and overhead charges; and
- (c) provide a marginal advantage in favour of the Australian manufacturer."

As regards the margin postulated, it should, in the view of the board, "be wide enough to secure to efficient Australian manufacturers so much of the market as is represented by goods which can be economically produced in the Commonwealth, but narrow enough to preclude any inefficiency, uneconomic extension, or undue profit-taking." Such is the Australian Tariff Board's view of the proper

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interpretation of articles in the United Kingdom-Australia trade agreement that are identical with those in the United Kingdom-Canada agreement.

Whether the Canadian Tariff Board and the Canadian Government will take a similar view remains to be seen. Does such an interpretation give the United Kingdom manufacturer "full opportunity of reasonable competition on the basis of the relative cost of economical and efficient production," which Mr. Bennett has declared to mean "an equal chance in Canadian markets" for United Kingdom goods? Or are the United Kingdom producers entitled to ask that the rates of duty shall be such as will put them on the same footing as if they were located in Canada? Whatever warrant there may be for this latter view, in the wording of the agreement or in authoritative pronouncements as to the intention of the parties, the fact remains that in one Canadian industry after another there has been such over-development, that there is already far more plant and equipment than is required to supply the needs of the Canadian market. In these circumstances it is clear that if a whole series of United Kingdom industries are to be put in a position to compete in Canada on an equal footing with the existing Canadian plants, the result will inevitably be substantial dislocation and loss of invested capital. To such a result strong objection is naturally taken by the Canadian industrialist, who argues that as he has risked his capital on the faith of "protection" being maintained, and as he is giving employment in Canada, and helping to build up the country, he should not be put out of business for the *beaux yeux* of the United Kingdom manufacturer, who, however cheaply he may be able to produce in the United Kingdom, is not giving employment or paying taxes in Canada. Such part of the Canadian market as the domestic manufacturer is unable to supply—there are classes of goods which, because of the smallness of the demand or for other reasons will probably never be made in Canada—might well be secured

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to the United Kingdom manufacturer, provided that he is able adequately to supply it, but the domestic manufacturer should not be driven from domestic markets that he is able to supply. On the contrary—such is Canadian industrialist opinion—tariff rates should be sufficiently “protective” to assure him the market, provided that he is in a position to produce economically and efficiently, of which condition, so important to the consumer, the Tariff Board should be the judge.

When we turn from Canadian industrialist opinion to consider the general economic structure of the country, we are confronted with the fact that, in addition to being seriously over-industrialised, we have very large surpluses of natural products which it is essential to our economic well-being that we should market abroad. It was precisely with a view to marketing these surpluses abroad, in the best market in sight, viz., the United Kingdom, that the Canadian Government undertook to increase the market in Canada for United Kingdom manufactured goods. Some progress in this direction has been made along the lines of complementary production as between the two countries, but not by any means to the extent of providing a *quid pro quo* for the advantage accorded to Canada in the United Kingdom market. It is further to be noted that the day has gone, apparently for good, when Canadian natural products, wheat in particular, found a market abroad automatically, and when it was unnecessary, in controlling the country's buying and in formulating commercial policy generally, to think in terms of securing such markets abroad for natural products. In future, it looks as though that would become the determining consideration. It is in these circumstances that the carrying out of the trade agreement with the United Kingdom becomes of such importance. The best possible market for our natural products has been secured for a five-year period ending in 1937, and our anxiety with regard to a large part of our selling has been for the moment removed; but the con-

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dition of our retaining that market is that we so direct our buying as to provide a *quid pro quo*.

It will be seen that the function of the Tariff Board in investigating and advising upon the whole question of control of buying is of the most far-reaching importance to the economic well-being of the country. Put at its highest, the task may be regarded as involving the complete revamping, on a more orderly and economically justifiable basis, of the entire industrial structure that has been built up at haphazard over the last two generations. Not that a drastic surgical operation is advisable or possible; but just as there is a growing feeling that there must be some "rationalisation" of our seriously over-developed transportation structure, so there is increased recognition that, in the interests of the consumer and of the country as a whole, there must be elimination of waste and uneconomic conditions generally in industry. It is obvious that such a programme should not, and indeed could not, be carried out in cold blood, or "at one fell swoop." The dislocation, in the way of unemployment created and capital lost, would be too great; and commitments made, on the faith of long-established protective duties, are entitled to consideration. Moreover, there is force in the contention of the Australian Tariff Board that common sense does not permit, and the trade agreement does not require, rigid mathematical adherence to the yard-stick of production costs. Not only should "infant industries" be accorded special treatment, but no industry, it may be argued, should be deprived of protection until its relation has been considered both to the general industrial structure of to-day and to what may reasonably be expected to be the industrial structure of to-morrow. But even on such a basis of interpretation, the conscientious carrying out of the United Kingdom-Canada trade agreement may well lead to a much-needed setting in order of the house of Canadian industry.

Canada.

January 1934.

AUSTRALIA

I. THE FINANCIAL POSITION

THE financial position, as disclosed in June, was that the Commonwealth Government would end the financial year with a surplus of over £3 million, while the States would all have deficits, amounting to £8.6 million (in New South Wales to £4.3 million). Sinking fund payments for the year totalled £7.7 million, so that for all Governments there was a favourable balance on income account, which on final figures amounted to £2.7 million. The States agreed to limit their deficits to £8.5 million for the year 1933-34, and the Commonwealth Bank agreed to finance these deficits by means of treasury bills, on the understanding that some funding of treasury bills should take place during the year. The Commonwealth Government announced its intention of using its improved financial position for the relief of taxation.*

The Commonwealth Government ended the year with a surplus of £3.5 million, in spite of an unforeseen expenditure of £2 million for the relief of wheat growers. Revenue showed an increase of over £7 million, including £5 million for customs and excise, and about £1 million each for sales tax and income tax, in spite of some remission of taxation under both these heads.

There were four possible policies for the Commonwealth Government in respect of their present and prospective surpluses: (1) to reduce State deficits, (2) to pay off debt, (3) to spend any surplus on capital works and the relief of the unemployed and of farmers, or (4) to remit taxation. To the first of these courses the Commonwealth Government were in principle opposed; it was not, in fact, necessary for the maintenance of public confidence, and,

* See THE ROUND TABLE, No. 92, September 1933, pp. 910-914.

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as deficits were being financed by means of treasury bills, the effect would have been deflationary. Repayment of debt was also inappropriate to a period of depression. Free spending, on the other hand, would have had a cold reception from business opinion and might have impaired confidence. Remission of taxation, without any decrease of expenditure, accordingly seemed the most useful contribution that the Government could make to business recovery. Moreover, it was naturally popular. For some time the daily press with singular unanimity had come to the conclusion that heavy taxation was the only bar to further recovery, and the demand for remission was persistent. Once committed to this policy, the Government went to the utmost limit. They proposed to remit taxation to the extent of £7·5 million (about 13 per cent. of all Commonwealth taxation), and to increase expenditure by £1·7 million. The total liability thus imposed on the budget, up to June 1935, would be nearly £16 million. The expectation was that about £11 million of this would be provided by the present improved state of government revenues ; the remainder would be met by the accumulated surpluses of the last two years, amounting to about £4·9 million. The statement, being in effect a two years' budget, was of special interest.

The Government, then, decided to give away everything in sight, leaving no reserves for special calls on its revenues. It took this step no doubt partly in order to defend itself in advance from the probable demands of industries, State Governments, pensioners and its own employees. The policy was not, however, quite as reckless as it appeared, because the sobriety of the Treasury estimates of revenue left a probable margin. In any case, circumstances called for a bold constructive policy, which from the Treasury point of view could not avoid some elements of risk.

The net additional expenditure of £1·7 million was made up chiefly of small restorations of certain cuts effected two years ago by the Scullin Government in pensions and public

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service salaries. In addition, £1.5 million was to be added to expenditure from revenue on defence and new works, but this was offset by automatic decreases in other items.

The remissions of direct taxation amounted to £3 million. The special surtax of 10 per cent. on income from property was reduced to 5 per cent., and "personal exertion" rates were reduced by 15 per cent. The land tax and the taxation of insurance companies were substantially reduced. Perhaps the most useful remission was one of 5d. in the £ in the tax on company incomes.

Remissions of indirect taxation amounted to £4.3 million, of which £2.6 million was accounted for by reduction and exemptions in the sales tax. Reductions of tariff rates, mostly in accordance with the Tariff Board's recommendations, accounted for £1.4 million, and excise reductions on beer and spirits for the remainder.

The atmosphere of universal beneficence which pervaded the Federal budget did not extend to State Treasurers. Their task was still the unpleasant one of reducing deficits. The budget proposals are set out below in comparison with the June undertakings and actual results in 1932-33 :—

State Deficits in thousands of £'s

		1932-33	June	1933-34
		Results	Undertaking	Budget
New South Wales	.. ..	4,271	3,950	3,601
Victoria	.. ..	856	800	700
Queensland	.. ..	1,554	1,850	1,848
South Australia	.. ..	1,009	1,100	933
Western Australia	.. ..	864	750	748
Tasmania	.. ..	55	50	51
Six States	.. ..	8,609	8,500	7,881

The figure of £8.5 million for total deficits was accepted subject to reductions on account of London conversions and of the further efforts that some Treasurers thought possible. On the face of it the budget figures show an improvement, but it is too early in the financial year to forecast how budget plans will turn out. The attitude of

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the States towards the problem varies. Victoria, South Australia and Tasmania follow the deflationary instincts natural to Treasuries. On the other hand, policy in New South Wales and Queensland is guided by a considered resistance to deflation. Western Australia is dominated by the consciousness that it is still "The West," with all its accepted connotation. The reduction in the New South Wales deficit is rather the result of a skilful adjustment of accounts than of any real approach to a balanced budget. One may guess that the three last mentioned States will be content to persist with deficits no greater than at present until opinions change as to the wisdom of this policy, but the present rise in wool prices is likely to put New South Wales and Queensland in a better position next June than their estimates indicate.

The general position was thus satisfactory, for the States were more than holding their own and the Commonwealth was making a bold bid to stimulate private enterprise. The assumption that the taxes remitted would "fructify in the pockets of the people" may prove ill-founded under present conditions, but detailed examination of the taxation remitted suggests that two-thirds of the whole may be expected to pass into active circulation, bringing substantial indirect benefits in the way of employment and profits.

Unfortunately, at this juncture the continued low price of wheat brought the wheat-growers' plight to a head. The price of wheat has been for some months under 2s. a bushel (Australian currency) at country sidings; nor is there any present promise of improvement. Something had to be done for the wheat-grower, but the Government was empty-handed. It had mortgaged its future for two years, and there was nothing more to give away. The cheers that greeted the budget remissions of taxation were still echoing, and it was very embarrassing to reverse the movement so suddenly.

In this dilemma, a tax on flour—always the favourite nostrum of the Country party—won its way against the

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instinctive repugnance of the direct Government supporters. It was in a sense not exactly taxation—at least it was a different sort of taxation from that remitted, and there was a kind of confused appropriateness about it ; so the Government embraced it. In Australia, a tax on essential foods is passed on by means of wage-fixing machinery to the employer, and is eventually borne in large measure by the unsheltered export industries. The flour tax was therefore going to fall in the end on the people most needing relief. For this and other reasons, the proposal raised a hullabaloo, and the Government, retracting, arranged for a loan, to be repaid in three years out of revenue. Any loan for such a purpose aroused indignation in other quarters. The Government appears at this stage to have lost its head, for a series of new expedients was reported almost daily from Canberra. The question became political in the worst sense, and the issue was long uncertain. Relief to the amount of £3 million was the minimum figure on which the Government could make terms with the Country party. In the end the money will be found mainly by a flour tax (£1,600,000), partly by increasing the present ridiculously high protective duty on imported tobacco (£220,000), and partly by abandoning part of the proposed remission of the special 10 per cent. property income tax (£220,000), so that the tax will be 6 per cent. instead of the 5 per cent. indicated in the budget. The rest will be made up out of surplus revenue.

The Government's weak acceptance of a flour tax opens up the dismal prospect of a systematic bolstering up of exports by means of a "home-price" on the commodity exported. Already a Bill has been announced to make more effective the subsidising of butter exports by means of Federal control. We have had the home-price for butter for some years by arrangement within the industry, but the scheme was breaking down under the increased proportion of exports. When the several Governments of the Commonwealth make it possible for producers to dump

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butter on the world market at less than the cost of production, it is difficult to see how the Commonwealth Government can with any decency support Mr. Bruce's recent protests against the narrowing of the British market for Australian dairy produce. Further comment must, however, await the detailed proposals of the Government.

A word may be said on the treasury bill controversy. The Commonwealth Bank still urges a substantial funding of the outstanding bills. A considerable body of opinion holds strongly that it has been the financing of deficits and public works by means of treasury bills that has enabled the country to escape the worst excesses of deflation. A compromise has been reached to this extent, that for the balance of this financial year the Loan Council will raise money for public works on the market, while the Bank will take treasury bills to cover revenue deficits; but there is still disagreement about funding. The matter came to a head in November, when the Loan Council wanted a loan mainly for works, and the Bank one mainly for funding. A compromise was reached by which the loan was equally divided between the two purposes. It seems that the inflationary use of treasury bills is not likely at the most to go further than keeping the volume of bills for some time at its present level, and that any substantial increase on account of deficits will be quickly funded. There are now about £50 million of treasury bills in Australia. Whether the volume is excessive or not must be judged by comparison with the long-term government debt of £600 million, or banking assets totalling £400 million. The bills are held entirely by the banks, and there seems no reason why the market should not be broadened by including other financial houses as customers. Generally, it seems clear that the treasury bill has come to stay as a useful financial instrument.

As a whole, the position of Australia must be regarded as comparatively satisfactory. In the field of public finance, three years ago we faced a total prospective deficit of £40

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million. Last year, we had in effect a surplus on income account for all governments combined ; and this year we could have considerably improved on that if it had been worth while. But there are widely different views both as to the significance of the present position and as to the probable effects of the policy pursued.

Credit or responsibility does not belong exclusively to one political party. The predominance of Nationalist Governments does not altogether allay anxiety in respect of financial and economic policy, and in New South Wales counsels of caution find grounds for criticism of both the Commonwealth and State Ministries. On the other hand, it must be remembered that in the Commonwealth Government it was the Scullin Ministry which, though with reluctance, cut pensions, government wages and salaries, reduced interest on loans, and imposed unpopular taxation. As cynical observers three years ago remarked, it was all to the good that a Labour Government should carry out these reforms—they could do it with much less social disturbance than any other party. The Government would be rejected violently at the next election and their opponents come in to reap the fruits. And that, too, was all to the good, because business would recover confidence more quickly and fully under a Government that could be counted upon as sympathetic to the full enjoyment of the fruits of profitable enterprise.

In the matter of external solvency, the change has been equally revolutionary. Dr. Roland Wilson's work on the balance of payments, which is being published in the 1933 *Year-Book*, will repay close study in this connection. For the present year it is reckoned that imports and exports of commodities, taken in conjunction with external interest on public debt (£24·6 million), give a true picture of the balance on current account, because current gold production just about balances the net debit on all other items. On all current items we had a net debit of £42 million in 1928-29, which increased to £72 million in 1929-30 with

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the beginning of the fall in export prices. In 1930-31 it was reduced to £16 million and in 1931-32 actually turned into a credit of £6.4 million. For 1932-33, there was a small debit of £3.8 million. For these two years, therefore, we have achieved a satisfactory balance, in contrast to 1929-30 when the net debit amounted to 62 per cent. of our total credits.

This result justifies the Commonwealth Bank's judgment that an exchange rate held steadily at £125 Australian to £100 sterling was necessary to attain and preserve external solvency, even after the drastic cuts in wages and interest and other internal costs that were carried through in 1931. Yet this exchange rate has not built up the necessary reserves in London against a bad season, and the present balance has been achieved only by reason of a run of exceptionally good seasons. On a more cautious view of prospects, the rate would have been held higher—at 135 or 140—so as to give a safe London reserve. The recent rise in wool prices, however, combined with another good season, has confirmed the Bank's optimism. Wool prices in November were 80 per cent. above the 1932 average, and, after allowing for a light clip and lower prices for wheat and butter, exports should show an increase of about £15 million in the current year. Some expansion of imports will follow, but the net result should be a small but appreciable increase of London reserves.

The Tariff and The Exchange.

The problem of adjusting the tariff so as to avoid the excessive protection given by the depreciation of the Australian pound and the 10 per cent. primage duty on imports was discussed briefly in the September ROUND TABLE.* Reference was made there to an unpublished report of the Tariff Board on the subject, on which the Government had been sitting since Easter. It continued to sit on the report, showing plain indications of unhappiness

* THE ROUND TABLE, No. 92, September 1933, p. 901.

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and exposed to the taunts and jeers of the Country party. The Government was deeply committed to accepting the advice of the Tariff Board, but its protectionist elements were alarmed at the widespread reduction of duties involved. The Board's report, though moderate, was indeed a landmark in tariff policy. The reference of the exchange question to them forced them to consider the relative movement of costs in Australia and abroad, and the evidence was convincing that, in spite of the depreciation of the Australian pound, costs in manufacturing industry, apart from raw material imported, had fallen in relation to British costs. Their conclusion was that the 10 per cent. primage duty could be abolished and all protective duties reduced by one quarter (with a maximum of 12½ per cent.) without danger to Australian industry. This reduction, the Board considered, would still leave some industries over-protected, but would be safe as a general reduction over all protected manufactures. This was the gist of the Board's recommendations, which covered also special provisions of some complexity to deal with depreciated currencies, future movements of the Australian exchange and other special circumstances.

After long hesitation, the Government decided to accept the Board's report with regard to primage and to duties on British imports, leaving imports from other countries, where indeed the evidence was not so clear, for further consideration. The necessary amendments to the tariff passed through Parliament very quietly. The expected opposition both in Parliament and in the country was almost perfunctory. Even the most fanatical of the protectionist papers accepted the revision with almost formal protests. One can only conclude that there has been quite a remarkable recovery of fiscal sanity in Australian public opinion during the last two years.

Presumably the Tariff Board is now authorised in effect to take exchange fully into account in its investigation into individual industries, and one may expect in the

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immediate future a very valuable pruning of the excesses of the tariff in a number of important items.

II. CONSTITUTIONAL AND OTHER PROBLEMS

Lieutenant-Governors in Western Australia and Tasmania

THE letters patent constituting the office of Governor in the Australian States provide that during the absence of the Governor the duties of the office shall be discharged by a Lieutenant-Governor, or by an administrator appointed under the Sign Manual and Signet. When a Governor is merely temporarily absent from the seat of government, he may appoint under the Public Seal of the State a Deputy-Governor, if there is no Lieutenant-Governor, or if such officer is absent from the State or unable to act. Sometimes a specific person is appointed Lieutenant-Governor, but in any case a dormant Commission appoints the Chief Justice of the State for the time being, or in his absence, the senior judge, as the Lieutenant-Governor or as the administrator. These arrangements are not without their difficulties.*

If a Lieutenant-Governor is appointed who has been actively associated with a political party, even bona-fide decisions are liable to the suspicion of bias among those who have been opposed to him politically. And if he conceives it to be his duty to use his powers to further the interests of his party—as was expected of the Lieutenant-Governor in Queensland—then the office loses both its independence and its dignity. On the other hand, the appointment of members of the judiciary is not without serious reactions upon the judicial office. It is impossible to ignore the changed temper in party politics in some of

* See THE ROUND TABLE, No. 40, September 1920, for the circumstances in which Mr. Lennon was appointed Lieutenant-Governor and the results of his appointment; No. 59, June 1925, for a Tasmanian case; and No. 61, December 1925, for a full discussion of the method of appointing State Governors and the constitutional issues connected therewith. See also *Correspondence re the Appointment of Governors to Australian States*. Cmd. 2,683. June 1926. Price 1s.

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the Australian States, or the growth of the influence that extra-parliamentary bodies can exert upon Ministers. In such circumstances many judges feel that they should not be placed in a position that may involve them in political conflicts. It cannot be too often emphasised that anything which tends to lessen the prestige of the judiciary is to be avoided.

Some of these questions are raised again by the appointment of Sir James Mitchell as Lieutenant-Governor of Western Australia. At the last general election Sir James Mitchell's Cabinet was defeated and was superseded by a Labour Ministry. Sir James Mitchell himself lost his seat. Some time afterwards it was announced that the Chief Justice, Sir John Northmore, had resigned his commission as Lieutenant-Governor, and that Sir James Mitchell had been appointed his successor. Some members of the Labour party strongly criticised this action, and the member who defeated Sir James at the election asserted in Parliament that the Labour Government had not been paid the compliment of prior consultation by the Imperial authorities who were responsible for the appointment. The Labour Premier, Mr. Collier, refused to say whether or not this was true, and even when Sir John Northmore made a public statement regarding the appointment refused to say more than that "matters of this kind are always stipulated to be strictly secret and confidential, and are consequently treated as such by Ministers." Sir John Northmore was not so reticent. In an interview with the press he said that he had expected that the "grotesquely inaccurate statements" about Sir James Mitchell's appointment "would have been authoritatively contradicted." As this had not been done he wished to state "quite definitely that the appointment of Sir James Mitchell as (his) successor was made by the King on the recommendation of the Premier, made through (him) in the ordinary way to the Secretary of State for the Dominions and (he) understood, with the approval of the Cabinet."

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In Tasmania the main interest centres round the manner in which Sir Herbert Nicholls, the Chief Justice, resigned his office as Lieutenant-Governor, although the fact that his successor was some time ago active in politics raises in a minor degree the same issues as in Western Australia. The Premier, Mr. McPhee, intimated to the press that he had been told by Sir Herbert that he had forwarded his resignation to the Dominions Office. It was not clear that there had been any prior consultation with the Government. Subsequently it was stated that the King had accepted the opinion of the State Government that Sir Elliott Lewis might most suitably fill the position. Sir Elliott had been twice Premier of Tasmania, and had held other ministerial offices. He resigned from active politics in 1922, and has devoted himself to his practice as a solicitor. Since 1924 he has been Chancellor of the University of Tasmania.

Politics in Western Australia and Tasmania are fortunately free from the bitterness and factiousness that characterise some of the other States, and the appointments of both Sir James Mitchell and Sir Elliott Lewis have been well received. Nevertheless, the constitutional aspects of such appointments have been in no sense clearly worked out. At the same time, if persons who have been active in politics are eliminated from consideration, and if the judicial office is likely to be adversely affected, it will be very difficult to obtain a Lieutenant-Governor with the necessary qualifications for the office. And yet the political history of Queensland might have been very different had a non-party Lieutenant-Governor been appointed.

Increase in Federal Parliamentary Salaries.

Members of Parliament must grow accustomed to the animadversions of their opponents, and even to the criticism of their friends, but it is seldom that all members, irrespective of party, come under a common lash. This has been the experience of Federal members who recently

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voted themselves a "restoration" of £75 per annum in their parliamentary "allowances" during a discussion of a measure appropriately entitled "A Financial Relief Bill."

As part of their "sacrifice" under the Premiers' plan, members of the Federal Parliament reduced their allowances by 25 per cent., as against the 20 per cent. reduction applied to similar salaries paid to public servants of the Commonwealth. That is to say, the allowance was reduced to £750 per annum, from £1,000 per annum, to which sum it had been raised in 1920. The restoration was approximately equal to the relief granted in the Commonwealth budget to the public servants.

It was unfortunate that the "increase" should have been voted not long after the Federal Arbitration Court had ruled that the economic circumstances of the country did not yet justify the restoration of the 10 per cent. cut in the basic wage that had been imposed on wage-earners as part of the plan for the rehabilitation of industry. It was doubly unfortunate that it should have occurred on the very day that the New South Wales Arbitration Court declared a further reduction in the basic wage (in that State), for men from £3 8s. 6d. per week to £3 6s. 6d., and for women from £1 17s. od. per week to £1 16s. od.

On the other hand, it is true that the Commonwealth budget showed a considerable surplus, although the States have still serious budgetary problems. And it is also true that, although the Federal Government was making generous remission of taxation, it had threatened to go to the electors rather than concede widespread demands to restore the "cuts" that had been made in old age pensions.

Some of these things made the "restoration" to members not a little incongruous, and the political manœuvres accompanying it, and still more the exaggerations in the press, aroused indignation. The editorial columns of the press, irrespective of party affiliation, reflected the storm of popular feeling, which found voice in trenchant denunciations from platform and pulpit. The conservative press

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vied with the normally less restrained journals in its use of disparaging and sarcastic captions, which ranged from such phrases as: "Another Salaries Grab," "The Galled Jade," and "The £75 Look," to "The Salaries Blunderstorm," "At the Burglar's Hour," "An Inglorious Exhibition of Political Greed." Labour organisations, which stand for the principle of increased wages, resented the action of their own political representatives as damaging to the workers' cause.

Members first affected astonishment, then attempted justification, and, finally, stung by one particularly cynical criticism in a Sydney journal, moved in the House to hale to the bar the editor and the publisher of the paper. And they also threatened reprisals by attacks upon the postal and telegraphic concessions afforded to newspapers.

Fortunately, wiser counsels prevented precipitate action, and when, after a lapse of nearly a fortnight, the directors of the offending newspaper explained that the article had not intended to reflect upon the personal honour of members, Parliament decided that its dignity had been vindicated.

Legislative Council Elections in New South Wales

The election of the reformed Legislative Council of New South Wales has brought to a close one of the most memorable chapters in the constitutional history of that State. After the acceptance of the reform by the people,* Parliament set about providing the machinery for the election. The validity of this legislation was unsuccessfully challenged in the State Courts, but an appeal to the Privy Council is now pending.

Meanwhile the election of new members has been held under a system of proportional representation. There were four ballots, at each of which fifteen members were

* For an account of the fight for the reform of the Legislative Council and the result of the referendum, see *THE ROUND TABLE*, Nos. 91 and 92, June and September 1933.

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elected to hold office for twelve, nine, six, and three years respectively. (In future, at the end of every three years, fifteen members will be elected for a term of twelve years.) The writ for the elections is returnable on January 17, 1934, and the new Council will be constituted on a subsequent date to be proclaimed.

Twenty-three of the 118 sitting members did not seek election to the new Council, and of the 126 nominations received 68 were made by Government supporters, 45 by the Lang Labour party, and six by the Federal Labour party, while seven stood as Independents. The ballots were held at intervals of a fortnight, commencing on November 2, and each candidate had four chances of election.

With so many candidates, and with party feeling inflamed, as it was, by the bitterness that the project of reform had engendered, it was inevitable that there should be a vigorous canvassing of votes. The Government had refrained from "running a ticket," but agreed upon a group that it recommended as worthy of support. The Lang Labour party not only had a carefully prepared ticket, but attempted to regiment its supporters into voting a meticulously marked "individual ticket," which was distributed to each supporter. It confidently asserted that it would be able to check how each person voted, despite the stringent precautions to preserve the secrecy of the ballot.

Not only were these predictions falsified, but the results of the ballots provided not a few surprises. While the Government supporters secured the full thirty-six seats to which their voting strength entitled them, the Opposition was split on unexpected lines. Of the 24 Opposition members returned, no less than five represented Federal Labour, and two were Independents, whose success has caused considerable heart-burning. Those people who had hoped to see a Council composed predominantly of new members have the satisfaction of knowing that there are nine new faces in the House (seven being Government sup-

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porters) in addition to 14 members who were appointed by the present Government last year. In other words, slightly more than one-third of the House can be regarded as "new."

There is little doubt that the quality of the new Council will be soon tested. Most people, however, will agree with the statement of the Premier, Mr. Stevens, that "the new Council is one which will give the people a sense of security, and which by its sane outlook and practical wisdom will gain and retain the confidence of the whole community."

The Idea of Longer Parliaments

The desirability of securing some continuity in the working out of the various "plans" for rehabilitating the fortunes of the Commonwealth has provoked some interest in the idea of "longer" parliaments. The matter was considered by the Royal Commission on the Commonwealth Constitution, and the majority report* recommended the extension of the term for which members of the House of Representatives should be elected, from three to four years. The proposal was made partly out of sympathy with members campaigning over the immense areas that characterise many of the Australian electorates, and partly upon a consideration of factors affecting the internal working of Parliament.

In the South Australian election campaign of April, 1933, the leader of the anti-Labour forces (Mr. R. L. Butler) urged that five-year parliaments would promote economic stability, foster political harmony and reduce the expense and dislocation associated with elections. Although the proposal evoked little popular interest, Mr. Butler proceeded, on his assumption of office, to put it into effect. He brought down a Bill to amend the constitution of South Australia by extending the life of the Assembly from three to five years, and of the Council from six to ten years. The

* Report of the Royal Commission on the Constitution, 1929 (F. 1251), Government Printer, Canberra, pp. 268 and 304.

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Bill passed the Assembly with the necessary constitutional majority, but an amendment by a supporter of the Ministry, to the effect that the term of the Legislative Council should not be extended, destroyed the argument that the number and expense of elections would be diminished.

By the time the Bill reached the Legislative Council, vigorous and unexpected public opposition had developed. It was contended that even if Mr. Butler had mooted the idea in his policy speech, the real issue upon which he had fought the election was a promise to continue to adhere to the Premiers' plan. He could not claim that the principle of extended parliaments had been endorsed by the electorate.

The Council, therefore, compromised. It refused to extend its own life without first consulting the electors (the Legislative Council is elected), but it agreed that Mr. Butler was reasonably entitled to have the life of the Assembly extended to five years.

As the Bill left the Council it contained but one section, which limited the extension to the life of the present Assembly. This destroyed the principle of the Bill, but nevertheless the Government accepted it. Moving that the Assembly accept the Council's amendments, the Premier gave an assurance for himself and his Ministers that before the expiry of the present Assembly's term of office a further Bill embodying the original principle would be brought down. By that time, people would have had an opportunity of estimating the value of the reform. The Labour party bitterly opposed both the principle and the compromise. It contended that Mr. Butler could not control the Council, even if he could pledge his Ministers, while it was highly unlikely that the Council would assist Labour to gain office for the five-year period proposed.

Although the immediate political reaction to the South Australian experiment has been the decision of the Queensland Labour Government to amend the constitution of that State by making it impossible to reconstitute an Upper

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House, or to extend the life of parliament without first taking a referendum,* the modern tendency to engage in "planning" the economic and financial life of the community may necessitate the adoption of longer parliaments. And this suggestion is strengthened by a consideration of political developments. The frequency with which threats are made by Opposition parties, that they will denounce agreements, or reverse policies, or terminate appointments, shows how far present-day parliaments have departed from the Victorian ethic, while the uncertainty that is engendered seriously disorganises commerce and industry. Five-year parliaments might lengthen the time for working out rival policies. At the same time, the post-war experience of Great Britain, Canada, and South Africa, who have quinquennial parliaments, shows that they have not enjoyed more political stability than has South Australia under a triennial system.

Government Difficulties

"Generally unsettled with occasional heavy squalls" aptly describes the recent political weather reports from Canberra and Melbourne. The Canberra unsettlement is principally connected with implementing the Ottawa agreements, the difficulties of which were foreshadowed in the Australian contribution to the September issue of this review,† but not a little is due to the efforts of sectional interests to appropriate some of the benefits that the improved financial condition allows the Federal Government to distribute. Apart from the crisis over the old age pensions referred to in another paragraph, the Government has been subject to constant pressure by insurgent

* Those who recollect that in 1907 the Queensland Parliament passed a measure requiring that any disagreement between the Assembly and the Council should be submitted to a referendum, and that in defiance of such a vote, in 1917, the Council was abolished, may be forgiven for being a little cynical about this proposal. See ROUND TABLE, No. 40, September 1920.

† See THE ROUND TABLE, No. 92, September 1933, p. 895.

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groups. For example, there have been organised raids by representatives of rural interests ; there has been the agitation of various interests to have the land tax abolished, of commercial interests to have the sales tax and primage reviewed, of the defence interests, pleading unsettled world conditions as a reason for spending more upon armaments, while the only discordant note in a chorus demanding further reductions in the cost of government has come from the public servants. These influences are reflected in the budget and its history, which are dealt with in the previous section.

Far more difficult has been the task of tariff revision. At the last election, the Country party had vigorously assailed the policy of the Labour Government in imposing prohibitive duties, as well as some embargoes upon imports. But when Mr. Lyons refused the Country party's demand for the customs and other portfolios as a price for their support, the long-standing coalition with Dr. Page's supporters was broken. Dr. Page showed his chagrin by announcing that the Lyons Government would probably be short-lived, and from time to time the smouldering resentment of the Country party at its exclusion from office flames up to the embarrassment of the Government. Its general line of attack is against the sloth and neglect of the Government in its tariff policy, which is also alleged to be in "violation of the spirit of Ottawa." But English primary producers use the same phrase to condemn the Australian practice of export levies to enable products to be sold in English markets cheaper than at home.*

On the other hand, the Labour party and the manufacturers violently assert that "the egregious blunder of Ottawa is denuding Australian manufacturers of the protection which the people wish them to have." And the Lyons Government is warned that "its recreant, defiant attitude on the fiscal question has strengthened the determination of the people that at the next election they will

* See *The Spectator* of August 4, 1933.

take added precautions to ensure that the national policy of protection will be more rigorously maintained." The reply of the Ministry is that the tariff legislation and the work of the Tariff Board "answer in full the unjustifiable assertion of sectional and often self-seeking interests that the Government is not honouring its pre-election tariff promises nor implementing the Ottawa Agreement."

In Victoria strained relations between the United Australia party and the Country party have existed for some time, and have been intensified by personalities. The Government is dependent upon the co-operation of the Country party, but that party has for some time shown a disposition to use its strategic position to extort concessions in return for support, while some of its members have developed such an attitude of intransigence as to paralyse legislative action. Some proposals of the Government (as in the Transport Bill) have been rejected with little reason, and this has had the effect of holding up other legislation aiming at rural rehabilitation. Although there is agreement upon the broad lines of a rural programme, there is discord over methods. Farmers' relief, bulk handling of wheat, the marketing of dairy produce and the milk supply, all reveal acute differences, which were still unsettled in the last days of the session.

The Premier, Sir Stanley Argyle, has shown a disposition to temporize, and this has been interpreted as weakness, but occasionally—as in the recent by-elections—he has "taken the gloves off" and attacked the insurgents for their disruptive tactics. Nevertheless, the petty bickering has discredited the Government. Electors are not disposed to inquire too closely into the personal quarrels of the groups and factions, but they are concerned that these things shall not threaten the initiation of legislation that may provide a basis for rehabilitation. At the recent triennial Australasian conference of the Country party a more tractable spirit was manifested, and resolutions were adopted agreeing to co-operation with the United Australia party,

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especially in Victoria and the Commonwealth. This has gone far to relieve the anxiety that was tincturing the otherwise improving feeling of confidence. For even with wool keeping up, high prices for gold, successful conversions of overseas loans and of local issues, and prospects of another good season, it was feared that political dissension might wreck all the efforts of the past three years.

Notwithstanding the improvements just mentioned, all the State Governments are anxious about the lagging return of "prosperity." The amounts needed for food relief have fallen to the lowest levels since the depression. This is partly, but not solely, the result of government expenditure upon relief works. There is a vigorous body of opinion that favours increased government expenditure upon public works, but the difficulty is to find the works that are "economic" under present conditions.

Australia.

December 21, 1933.

SOUTHERN AFRICA

I. POLITICAL CHRONICLE

ON January 26 the Union Parliament will meet again after a seven months' recess. It will take into review the record of what General Smuts has described as an *annus mirabilis* in South African history—it will look out upon the future with substantial confidence, coupled, however, with an intriguing curiosity as to the nature of the scenes that are to be enacted on the political stage.

As for 1933, South Africa is one of the few countries that can look back on it with almost unalloyed satisfaction. The political situation has changed during the last twelve months out of all recognition—and the change has been entirely for the better. In the economic sphere the recovery has been most encouraging, and the future is full of promise.

There can be no question of the success of coalition in allaying the strife of a generation, as far at least as most of the leaders and the great majority of their followers are concerned. General Hertzog and General Smuts had fought one another strenuously, often bitterly, for twenty years. The gap between them seemed to be unbridgeable. But the very intensity of the political strife that has so often prevailed in South Africa, and the magnitude of the issues round which that strife has revolved, have tended to develop in its people a political mindedness, of which one of the characteristics is a genius for compromise. Its political leaders are good fighters, but they have the good fighter's characteristic of being able to turn his back on the bitterness of the struggle when the time has come for

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peace. The two Generals are co-operating to-day in a spirit of real friendliness ; the Cabinet gives little continuing evidence of the heterogeneity of its origin. Hardly less significant is the real change of heart over a great part of South Africa to-day. Between Afrikaans-speaking and English-speaking South Africans there has been a great growth of mutual confidence. More striking still has been the disappearance in most of the country districts of that form of bitterness which has of late gone deepest into South African life, the bitterness of feeling between Afrikaans-speaking South African party men and Afrikaans-speaking Nationalists. The party feeling that poisoned the wells of friendship and co-operation between those who had essentially the same interests and outlook has gone ; the virulent opponents of a year ago now rejoice in chipping one another good humouredly as they recall incidents in the battles of the past.

All this undoubtedly represents a major political achievement, of importance not only in respect of South Africa's internal relations, but also because of the enhancement of the Union's prestige and of the good will towards it that has, one would hope, been called forth in the other member-States of the Commonwealth and elsewhere.

Since South Africa is not Utopia, no one would expect the political developments that have taken place to have commanded absolutely universal approbation. In a sense the completeness of the success of the coalition movement has provided the occasion for the reaction that has revealed itself. The coalition agreement between the leaders postulated the maintenance by the two parties of their respective identities. Yet to great masses of the Afrikaans-speaking people coalition and what it represented seemed so entirely right that almost at once the question was raised, "Why stop at coalition ?" Coalition was in the nature of things a temporary expedient. What was to follow it ? A return to party strife on the old lines seemed unthinkable. There was no effective alternative, it was

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clear, to the fusion or union of the South African and Nationalist parties. Without waiting for the leaders, the rank and file initiated a movement to that end. Into that movement the leaders found themselves irresistibly drawn.

Inasmuch, however, as there had been certain elements in both parties that had accepted coalition without enthusiasm, it was only natural that they should find fusion somewhat strong meat. At the outset the fusion movement was a rural movement. There was little enthusiasm for it among the English-speaking supporters of the South African party in the towns. Natal, in particular, sturdily distinctive in its outlook, and by virtue of its consciousness of a specifically British tradition inclined to be intensely suspicious of General Hertzog and of much that he has stood for in the past, might have been expected to regard fusion almost as some new Pan-Afrikander conspiracy. In fact, however, General Smuts has obtained the adherence of his whole party for the principle of fusion. At the party congress in each of the four provinces, including Natal, he secured a unanimous vote; indeed the Natal congress was the most enthusiastic of them all. There was magnificent leadership underlying this achievement. The leadership, however, found its response in what has undoubtedly been in the nature of a swelling wave of national feeling. The readiness of the British minority in South Africa to turn away from the old suspicions, for the nurture of which it was always possible to find abundant material, may yet come to be regarded as one of the big things in South African history.

General Hertzog has been less fortunate than General Smuts. When first he decided on coalition he was strenuously opposed within his Cabinet and his party by one of the ablest of his colleagues, Dr. D. F. Malan, the leader of the Nationalists in the Cape Province. Eventually Dr. Malan agreed to give the coalition conditional support, though he remained outside the Government. There was, however, ground for the suspicion that even this con-

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ditional support was accorded merely to ensure the return of his followers at last year's general election. Certainly no one was surprised when Dr. Malan attacked the fusion movement as a violation of the coalition agreement, and gave utterance to criticisms of ever-increasing acerbity of the Coalition Government, and more especially of the Prime Minister. Able, determined, a master of political manoeuvre, Dr. Malan is a dangerous political opponent. His control of most of the Nationalist press places exceedingly effective instruments at his disposal. And since the appeals to sentiment—the awakening of the memories of South Africa's uneasy past—which General Hertzog himself so largely used in building up the Nationalist party, have not yet lost all their value as ammunition in political warfare, he can see clearly marked out before him the natural path for the leader of a reactionary party to tread.

Hence the issue of fusion has been stoutly fought at the provincial congresses of the Nationalist party. At the Cape congress, in his own province, Dr. Malan prevailed. In the other three provinces General Hertzog carried the day, not, however, without some difficulty, especially in the Free State. As a result, the majority of the Nationalist party is committed to the principle of fusion. The Cape section of the party officially stands out, although an "invasion" of the Cape by General Hertzog and his Nationalist colleagues in the Cabinet revealed that there, too, the Prime Minister can count on a substantial following for the cause that he has espoused. There can be no doubt that when the two leaders come forward with an agreed basis and programme for the new united party, it will be acclaimed by the great mass of the South African nation.

So, then, in most of South Africa a very much healthier feeling has come to prevail. It is with a sigh of relief that political strife has been allowed to lapse into the background, and that the energies thus released are being diverted to the task of economic reconstruction. In that task, too,

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substantial progress has been made in 1933. The opportunity offered by what may conveniently be called the gold premium has been effectively seized. The Witwatersrand, still essentially youthful in its vitality and its adaptability, has responded with enthusiasm to the new stimulus. The flotation of fresh ventures, the expansion of existing propositions, the undertaking of new developments, have proceeded apace. Confidence has been stimulated, and expectations have soared. Much of the activity has, of course, been merely speculative, but speculation very often both opens the way to, and provides the means for, constructive progress, and during this last year much has undoubtedly been done to lay solid foundations for an extension at once of the present scope and of the expectation of life of South Africa's major industry. Even the heavy taxation on the mining industry imposed during the last session of Parliament did little to slow up the process. Such effect as it might have had was rapidly neutralised by the increase in the price of gold.

For South Africa in general the Witwatersrand is a radiating centre of prosperity. An improvement of conditions there communicates itself over an ever-widening circle. So it has been during the last year. The recovery in agriculture was, however, considerably retarded by drought conditions as bad as any that South Africa has experienced for more than half a century. The croakers, who declared that South Africa is drying up, or painted lugubrious word pictures of the encroachment of the desert, seemed to have all the evidence that they needed to prove their theses. To-day, however, they are silent. As ever the land of contrasts, South Africa has passed from the utmost severity of drought conditions to abundance of fructifying showers. Again the desert is blossoming like the rose; great stretches of the Karroo are a very riot of variegated flowers. It is long since the indications of agricultural prosperity have been as favourable as they are to-day. In its measures of immediate agricultural relief

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the Government has been favoured with the assistance of Nature beyond even its wildest hopes. As a result it finds itself in a most advantageous position for attacking the permanent problems of rural poverty and retrogression, the solution of which is essential for the Union's future welfare.

If the year that has come to an end is to be regarded with satisfaction and gratitude, what of the prospects for the year that lies ahead? On the economic side there is, as will appear from what has been said, every reason for confidence. There are, of course, some factors that make for caution. Bounteous rains have brought floods in their train, and the valley of the Orange river, one of the few river valleys in South Africa that lend themselves to really productive land settlement, has been laid waste. There have been unprecedentedly heavy infestations of locusts from the north, reminding South Africa of its connection with the African continent, and at the same time emphasising the interdependence of the Union, the protectorates, and Southern Rhodesia, if only by virtue of the fact that the work of extermination in the Union itself may be rendered to a large extent futile if the locust is left to breed without restraint in its border territories. Moreover the return of prosperity to the Union has been bound up with the gold premium, and the lesson of South Africa's dependence on world conditions has been too effectively forced home in recent years for the possible repercussions of a continuance or an aggravation of the present instability in the world economic position not to be appreciated. These, certainly, are factors that make for caution. They serve, however, merely to temper, not to destroy, the prevailing optimism.

There is perhaps more uncertainty in regard to the political prospects. There can be little doubt, even in this country of surprises, that the fusion of the parties will be effected. There need be little fear that the present harmony between General Hertzog and General Smuts will

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be disturbed. As for questions of policy there is no present sign of substantial disagreement. The native issue is not likely to be forced. For the rest, rocks at present submerged may come to present a threat of danger. The recent reversal, for instance, by the Privy Council of a famous Haldane judgment, when it agreed to hear an appeal from a decision of the Supreme Court in South Africa on a matter raising no principle of special importance, threatens to bring up the whole question of the abolition of such appeals, an issue on which a cleavage might easily arise. It is probable, however, that the necessity of avoiding big constitutional questions will be appreciated, and the present truce maintained.

There remains the possibility of trouble arising from a source whose potential danger, especially to a coalition government, is not usually recognised—the difficulty of satisfying the aspirations of political supporters in the apportionment of such openings for preferment as present themselves. All the probabilities, however, point towards a surmounting of these and other difficulties and towards a development of the present arrangement of convenience into a permanent partnership. On the face of it, of course, General Smuts's tactical position might seem to be exceedingly strong. He can count on a united following, whereas General Hertzog's party appears to be irretrievably split, with the result that he would seem to be entirely dependent on the good will of his former opponent. One must, however, avoid the danger of judging the situation too narrowly. General Smuts is in any case not the man to abuse a tactical advantage such as he now holds; if he were disposed to do so, it is doubtful whether the nation would forgive him. General Hertzog may have lost a considerable section of his own immediate following, but he has gained tremendously in prestige and in good will in the country as a whole. It is to-day unthinkable that the termination of his premiership, otherwise than at his own strongly expressed desire, would be tolerated.

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The uncertain factor in the situation is rather that presented by Dr. Malan. It is clear that when Parliament meets he will not find more than fifteen or twenty followers to support him in opposition to Generals Hertzog and Smuts. It is admitted that, if after the fusion of the parties a general election is held, probably not more than half a dozen of those followers would be returned. Yet history has a knack of repeating itself in South Africa. Dr. Malan's position to-day is peculiarly similar to that of General Hertzog himself twenty years ago, when he went out into the wilderness with but a handful of parliamentary followers, out of whom he created the great Nationalist party. The party cries that were used in those days are for the most part still ready to Dr. Malan's hand to-day. The right of secession, neutrality in time of war, he has always espoused; with republicanism as a slogan he is already toying; he is sedulously at work in the graveyard of bitter memories of the past. He and his followers will not fail to raise any issue out of which sentimental capital may be made. Will he repeat General Hertzog's own success? Will he also in time secure a majority following pledged to support his views? The question is one of very considerable importance. If Dr. Malan fails, then it may be accepted that the issue of South Africa's continued association with the Commonwealth on the basis of the Statute of Westminster is settled for a considerable time to come. If he succeeds, then we may look forward to the raising from South Africa of issues very similar to those which are being raised from Ireland at the present moment by President de Valera.

The probabilities seem to point towards the conclusion that Dr. Malan will not succeed. For one thing, he is a good dozen years older than General Hertzog was when he started on his crusade; for another he is at a disadvantage as compared with his former chief both in personality and in power of popular appeal. Moreover it is at least doubtful if the old sentimental slogans will be as potent

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in their effects to-day as they were twenty years ago, when country audiences were less sophisticated, when the events that gave them their significance were fresher in men's memories, and when the outbreak of a European war created conditions that greatly increased their potency. It would, however, be foolish to ignore the possibility of the emergence of factors, inside and outside South Africa, that would have an opposite tendency to those which have been mentioned. The potential significance of Dr. Malan's opposition to the fusion movement sponsored by General Hertzog and General Smuts should not be under-estimated.

II. THE ALTOGETHERNESS OF EVERYTHING

THE Union has many neighbours. Both they and the Union itself are daily becoming more conscious of one another, a consciousness that is not always accompanied by a sense of comfort. A summary of their mutual relations during the past few months compels a realisation of what someone has so aptly called "the altogetherness of everything."

At the close of 1932 the Union slid off the gold standard, achieved a premium on the gold of which it is far and away the world's greatest producer, and made possible big further developments of the low-grade ore of the Rand. The commercial clauses of the Mozambique Convention of 1928 were already irksome*; the demands of the mines for native labour brought into sharper relief than ever the clauses that limit the Union's recruiting rights in Portuguese East Africa. Hence, in September, 1933, the Pretoria Government exercised its right to demand a revision of the Convention. Immediately afterwards the Union authorities set aside a long-standing prohibition against the recruitment of tropical natives for the gold

* See THE ROUND TABLE, No. 72, September 1928, p. 883, and No. 73, December 1928, p. 210.

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mines, and agreed to an experimental importation of 2,000 men from beyond latitude 22° south. That resolution must affect the local labour supply of both the Rhodesias, and possibly of Nyasaland.

Nor is that all. General Smuts has always looked to an extension of the Union's influence northwards, and, by the same token, Pretoria has just been put into telephonic communication with Lusaka, the new capital of Northern Rhodesia. Mr. Pirow, the Nationalist Minister for Defence in our Coalition Cabinet, has been planning an aerial base at Durban, the replacing of pre-war guns in the forts there and in the Cape Peninsula, and the mechanisation of the defence force. He speaks with foreboding of the possible, though far-off, day when the Union may be called upon to defend European women and children in territories far to the north that have conformed to our policy of "differentiation between black and white and (the) maintenance of white superiority," against the black warriors of territories in which "the policy of assimilation is being applied to its logical conclusion." Meanwhile, the French Air Ministry has discreetly released talk of a French aeroplane service from Paris to Katanga, hard by the Northern Rhodesian frontier. And at the moment when the Union had concluded a shipping agreement with Italy and was about to scrap both the last vestiges of its own navy, Italian submarines appeared in its ports, the first such vessels to circumnavigate Africa.

Drawn thus closer to her northern neighbours by air, telephone, and ministerial vaticination, the Union sees these neighbours threatening to draw away from her economically. Some time back, Northern Rhodesia gave notice of withdrawal from its customs agreement with the Union. In December, 1933, Southern Rhodesia followed suit, though avowedly with a view to revision.

There has also been a revival of the idea of the amalgamation of the two Rhodesias. In April, 1933, a group of unofficial members of the Northern Rhodesian legislature,

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headed by Mr. L. E. Moore, of Livingstone, abandoned their opposition to the idea in face of the Governor's suggestion of a wider employment of natives rather than expensive Europeans in the humbler ranks of the police and various other departments. Their motion in favour of amalgamation was defeated. Nevertheless, south of the Zambesi, the Rhodesian party, which until recently held office at Salisbury, adopted as a plank in its election platform closer union with Northern Rhodesia and the incorporation of the Tati district and the northern Bechuanaland Protectorate. Its rival, the Reform party, went further still and proposed "confederation or other form of union" with "neighbouring territories," thus leaving the door open for closer working with the Union. But it is noteworthy that no one in Southern Rhodesia had a good word to say for General Hertzog when, in November, 1932, still in his pre-coalition manner, he announced that the "ultimate fate" of the colony was incorporation in the Union. That incorporation, he declared, could only take place on the basis of unification as distinct from federation, equality of English and Afrikaans, and no restrictions on the settlement of Rhodesian lands by Union citizens. Those principles had ensured the rejection of General Smuts's more tactful offer ten years before; they are certain to ensure rejection in any future worth present consideration.

Next comes the matter of railways. These promise to play once more their accustomed part of bringing the States of southern Africa closer together, and to loggerheads. Both the leading political parties in Southern Rhodesia desire a railway corridor to the west coast as an alternative to Beira, where they find the amiable but leisurely Portuguese officials something of a burden. One projected route runs from the middle Zambesi to Tiger Bay near the mouth of the Kunene river down the Caprivi Zipfel, which is South West African soil, mandated to the Union. The alternative route runs down to Walvis Bay, in South West Africa again; in addition it traverses the Bechuanaland

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Protectorate, on which Southern Rhodesia has always had its eye, and provision for whose inclusion in the Union is made in the South Africa Act. Does this spell more complications?

The Bechuanaland Protectorate has been in the limelight recently owing to the suspension and reinstatement by the Imperial authorities of Tshekedi Khama, regent of the Bamangwato.* Behind that picturesque incident and the march of Vice-Admiral Evans's marines lies the whole question of the continued Imperial administration of Bechuanaland, Basutoland and Swaziland. The Union has always envisaged the day when it would take over the Imperial "islands," and it cannot be doubted that this Tshekedi affair brings that question to the front once more.

Lastly, South West Africa is stirring uneasily, sinking deeper into debt to the Union, and fretting against the Union's trade and railway policies. Nazi enthusiasms are ranging the bulk of the Germans against the pro-Union British and Afrikanders, with repercussions in the Windhoek legislature and in its relations with the Union authorities.

Let the mere list of these interlocking policies and problems, all the way round the Union's borders from Mozambique to the mouth of the Orange river, stand thus baldly on record. Perhaps, later on, it will be possible to show them all more adequately under one view. For the present it must be enough to single out three matters for more detailed examination: (a) the Italian shipping subsidy, (b) the Tshekedi incident, and (c) the position in Southern Rhodesia.

(a) *The Italian Shipping Subsidies*

The subsidy to the Italian shipping companies appears to have been arranged by Mr. A. P. J. Fourie before the coalition was formed, and the agreement was taken over by the new Government. It provides for a subsidy of £150,000 per annum for five years to the Italia and Libera

* See THE ROUND TABLE, No. 48, September 1922, p. 910, No. 49, December 1922, p. 200.

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lines. It is stated that the Italian Government has also granted a subsidy of £300,000 per annum towards the new services. The Italia line, commencing on March 8, will provide a fast four-weekly service to Dakar, Gibraltar, Marseilles and Genoa. The time to Marseilles from Cape Town will be 14½ days. The boats are fitted with 90,000 cubic feet of refrigerated space for fruit and other perishable products. The Libera line will provide a semi-fast service to Mediterranean ports via both East and West African ports, and a monthly service via nearly all coast ports. Sailings between most of these and the Cape are at present very irregular. Trade does not justify regular sailings, and the absence of regular transport adds to the difficulties of building up the trade.

The two main objects of the agreement appear to be to secure trade with south European countries through the fast service, and to open up new markets for Union products in Africa through the semi-fast and slow services. The Italian companies are members of the Ocean Freight Conference, so that the fixed rates to Mediterranean and north European ports will apply. The west and east coast African ports, however, are not affected by the Conference. The Union Government will therefore control the rates on this route.

For some time there have been complaints about the difficulty of opening up new trade connections in Africa owing to the absence of regular sailings to certain ports, and the high freights charged where existing lines already call. The last report of the South African Shipping Board pointed out that freight rates to the natural export markets of South African industries, especially in East Africa, are often higher than rates to those markets from overseas countries. Representatives of the shipping companies naturally replied that freights must be affected by the volume of trade. This is a perfectly valid argument so far as the ports are concerned that at present have no direct regular communication with the Cape. Even

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though one or two lines have offered to put into any port if the freight available amounted to £50, in the absence of a subsidy it could not be expected that such small quantities could be carried at as low a cost as freight on the regular routes, for these freights would be the only inducement to call. The argument of the shipping interests is not so strong when it is applied to East African ports at which boats call regularly. If the calls are to be made in any case, competition would not necessarily result in the peak portion of the traffic paying lower rates than the other portions. But when competition with the Conference lines arose in the past, the Union Government did nothing to prevent their use of "clubbing" devices to drive out the competitor.

In the absence of legislation that would make competition possible, and in the knowledge that in any case competition could not provide the services to many ports where Union producers believe that they could ultimately develop markets, most people in the Union have regarded the subsidies to foreign ships simply as one of the ordinary forms of protecting new industries. The criticism has been not so much against subsidies as a temporary expedient, as of the probability of their being worth while, and of the secret methods by which they have been arranged without any attempt to find out whether other lines could have provided facilities at a lower rate. On the former point the *Cape Times* estimated that, during the first six months of 1933, the total export trade of the Union to the ports served by the new arrangement amounted in value to about £131,000; a very great increase would be necessary to justify the subsidy. More, indeed, was expected from the fast sailings to Marseilles and Genoa than from the opening up of the coast ports. Doubts were expressed whether France would agree to allow, without restriction, the import of goods carried on the subsidised Italian line. But the difficulty of developing the African trade at all in view of the present high rates made many business

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men consider that this was too pessimistic a view. Criticism has concentrated mainly on the way the subsidy has been arranged. The suggestion that the Italian companies must be able to provide the services more cheaply than others because they also obtain a subsidy from their own Government is, of course, simply a piece of bad theory. The only way in which it could have been found out whether the service was obtainable from the English or German lines was by allowing them to tender.

There are still some people in the Union who believe that subsidies generally do more harm than good. When the shipping subsidy was announced, one of these remarked that already the Union taxpayer had to pay a subsidy to enable Italy to buy South African meat more cheaply, and now our Government had been persuaded to make the taxpayers pay the Italians to come and fetch it. In so far as this happens, whether it is intended to happen or not, it can only check the speed of economic recovery by helping to keep world prices of primary products below the economic level. This disadvantage must certainly be set against the claims made for the agreement, which Mr. Fourie has admitted "is all bound up with" the Italian meat contract. That connection is thoroughly undesirable. It would be an evil day for the Union if, now that quotas are so common in trade, the acceptance of imports were to be adopted by other countries as a means of obtaining subsidies for their industries.

(b) The Tshekedi Affair

On Sunday, September 10, 1933, the good people of the Cape peninsula were startled by the spectacle of a naval detachment of 200 men with three guns from the ships at Simonstown being entrained for the Bechuanaland Protectorate. No one had heard of any trouble in that quarter, and the despatch of so considerable a force naturally gave rise to much surprise and some alarm. The next morning's papers contained statements by the Acting High Commissioner

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for the United Kingdom and the Acting High Commissioner for the Native Territories under the administration of the Imperial Government, which allayed the alarm if they did not entirely dissipate the surprise. Sir Herbert Stanley, His Majesty's High Commissioner for South Africa, who is entrusted with the administration of the native territories of Basutoland, Swaziland and the Bechuanaland Protectorate, and is the representative in the Union of the British Government, was away on leave. In his absence the office of High Commissioner devolved on the Naval Commander-in-Chief at Simonstown, Vice-Admiral Evans.

The statement that he issued was to the effect that a disturbance had taken place at Serowe, in Bechuanaland, in which Tshekedi, the Acting Chief of the Bamangwato tribe, was involved. There was no fighting, said the statement, nor casualties of any kind; the lives of the European inhabitants were not in any danger, and it was not found necessary to draft any forces to the spot. Certain action taken by the Chief having made it necessary to hold an enquiry, the Acting High Commissioner had ordered an immediate enquiry to be held and such action to be taken thereafter as might be deemed necessary. The Acting High Commissioner informed the press that it had been reported to the Magistrate at Serowe that a European resident had been tried by the Chief's Court and sentenced to be flogged, and that this punishment had actually been inflicted. He, the Acting High Commissioner, after considering the detailed reports of the occurrence obtained by the Resident Commissioner, and conferring with him and his officers, had ordered an immediate enquiry to be held locally. He added that he would proceed in person to the Protectorate, to receive reports and decide upon the action to be taken, accompanied by a naval escort. The 200 men and three guns constituted the escort.

Under the Orders-in-Council establishing what is known as the Bechuanaland Protectorate, the High Commissioner

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is empowered to legislate by Proclamation for the peace, order and good government of the territory. The common law of South Africa, the Roman-Dutch law, is applied to the territory, but civil relations between natives are governed by their own laws in so far as these are not in conflict with civilised jurisdiction, and disputes in which only natives are involved are dealt with by the native courts. The native courts have no power to try or impose penalties upon Europeans.

Tshekedi Khama is the Acting Chief of the great tribe of the Bamangwato, being the regent for the Chief, who is still a minor. He is a son of the late Chief Khama, the famous ruler of the tribe, one of the finest statesmen the Bantu race has produced. He is a young man, educated and civilised, whose qualities evidently draw a tribute even from the authorities who find fault with his conduct as Chief. One of the official complaints against him was that he would not work in harmony with the Administration, and he claimed that, as the country had not been annexed by the British Crown, the sovereignty of the Chief over his native subjects could not be overridden by the laws promulgated by the High Commissioner. This constitutional question, however, was definitely excluded from the scope of the enquiry instituted by the Acting High Commissioner into the trial and punishment of Europeans by the Chief's Court.

The Commission sat and concluded its enquiry on Wednesday, September 13. Tshekedi desired to be represented by counsel, and had instructed a member of the Cape Town bar to appear for him before the Commission of Enquiry. The Commission, however, refused to hear him, and required Tshekedi to conduct his own defence. Prior to the enquiry, orders were issued suspending him temporarily from his office of Chief and placing him under open arrest. The case that Tshekedi attempted to make was that he was justified in trying and sentencing the European because the latter was living among the natives

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as a native, and had been guilty of offences against native women, and that he had drawn the attention of the Administration to this man's misconduct without result. The misconduct of the European, it may be added, was not disputed, and at the close of the enquiry an order was issued banishing him and another white man from the native areas.

On Thursday, September 14, the Acting High Commissioner returned to Serowe, where he was received by the escort with a salute of 19 guns, and read his decision. He complimented Tshekedi on his personal qualities, his education and intelligence, but criticised him for selfishness and failure to work in harmony with the Administration. He admitted the bad character of the European concerned and announced his banishment from the reserves. He then informed Tshekedi that as a punishment for causing the flogging of the European he would be suspended from his functions as Chief and excluded from the Bamangwato reserve during His Majesty's pleasure.

On September 29 a statement was published by the Acting High Commissioner, in which he cited a communication from Tshekedi abandoning any claim of right to try a European and undertaking not to deal with European cases in future; stating that he did not claim, and would not claim, to be immune from the laws of the Protectorate now or hereafter in force; regretting what had occurred and assuring the High Commissioner that he would at all times work in harmony and loyal co-operation with the Administration. After dealing with the facts of the case, the Acting High Commissioner announced that His Majesty had been graciously pleased to terminate Tshekedi's suspension from his office as Chief, and also the order requiring him to live outside the reserve.

When this statement was published, Tshekedi was on his way to Cape Town, and on the following day he is reported to have paid an official call on Admiral Evans, the Acting High Commissioner, by whom he was received on board the flagship at Simonstown. On the following Monday he

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was formally reinstated by the Acting High Commissioner at Serowe. So ended happily a remarkable incident in the history of the Protectorate administration.

The question of the future government of the Protectorate, separated by a long and purely artificial frontier from the Union of South Africa, together with that of the two other High Commission Territories of Basutoland and Swaziland, which form two small enclaves within the Union borders, is one that calls for early settlement. The South Africa Act of 1909, by which the Union was constituted, provides that the King-in-Council, on an address from both Houses of the Union Parliament, may transfer to the Union the government of these Territories, and provides in a schedule an elaborate form of administration which is to be applied to them on such transfer. Since that time, nearly a quarter of a century ago, nothing has been done either to give effect to or to abrogate these provisions. There can be no doubt that this condition of suspense has been the most serious obstacle to the carrying out of measures of administrative and economic development that are everywhere regarded as being urgently required.

(c) *The Change of Ministry in Southern Rhodesia*

The last ROUND TABLE article on the political situation in Southern Rhodesia was written in October, 1932.* Our Rhodesian correspondent then defined the atmosphere as one of "cautious optimism." On the whole that optimism has been justified. Reviewing his Ministry's record after his return from the Ottawa Conference, Mr. H. V. Moffat, the then Premier, claimed that it had made a fair division of land between European and Bantu under the Land Apportionment Act†; that the Native Affairs Act had laid the foundation of native local government on the well tried lines of Rhodes' Glen Grey Act and Smuts' Act of 1920;

* THE ROUND TABLE, December 1932, p. 211.

† For the Report of the Land Commission *vide* THE ROUND TABLE, No. 67, June 1927, p. 632.

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that the maize, tobacco and dairy controls had saved the farmers, that gold production had gone up, and that the finances had been administered prudently.

Doubtless the Ottawa agreements have helped Southern Rhodesia round the corner. The stabilisation of the British preference on her tobacco for ten years is a great gain; so also is the Canadian preference on her maize and peanuts; while the meat quota system in Great Britain holds out hope to her cattle ranchers. Doubtless also the Union's departure from the gold standard and the approximation of its currency to the British and Rhodesian pounds has facilitated trade. Nevertheless, Mr. Moffat was justified in claiming some of the credit for himself and his colleagues.

The Ministry's record has not, however, saved it from extinction. Mr. Moffat gave notice that he would retire shortly, and his retirement was certain to weaken his Ministry and its hold upon the country. Mr. Moffat, son of the Rev. John Moffat who played no small part in the making of Rhodesia, had succeeded Sir Charles Coghlan, the doughty champion of self-government in Chartered days, as leader of the Rhodesian party. That party had held office for ten years, from the very beginnings of responsible government. At first it really had been "Rhodesian" in the sense that nearly everyone who was not a Labour man had belonged to it. But with the passing of time, cleavages began to appear, as they must in a legislature and electorate where the party system was as fluid as it had once been in the Cape province of the 'eighties. Gradually opposition groups took shape under various names; Progressives, Country party, Independents, and the rest. Mr. R. D. Gilchrist was for a long time the head and centre of this growing Opposition; but, in July, 1932, he public-spiritedly stood back in favour of Mr. G. M. Huggins to ensure common action. Thereafter a considerable Reform party stood organised, over against the Rhodesian party.

Personalities inevitably counted for a good deal in a small community of fifty thousand Europeans. In the

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main both parties wanted the same things, the Reformers wanting them more quickly than did their opponents. But there were differences of policy. The attitude of the rival parties on the issue of closer union with the neighbouring colonies has already been indicated. Further, the Reformers desired to get rid of the last vestige of Imperial control over legislation concerning the natives, railways, and so on ; to deal rigorously with monopolists, e.g. the British South Africa Company, which did not, in their opinion, develop their holdings beneficially ; to push ahead with land settlement and the segregation of Europeans and Bantu, even to the extent of "the removal of the anomaly of Europeans and natives being on the same electoral roll"—a Cape survival—and the discouragement of miscegenation by all means short of treating it as a criminal offence. Finally, their plans for the fostering of secondary industries were more precise than those of their opponents, and they were even ready to hold a referendum on the question of State lotteries.

Meanwhile a long-standing issue came to a head, and weakened the ministerialists. Without going into historical details, it may be agreed that the position of the British South Africa Company in Southern Rhodesia rested on the Royal Charter of 1889, and the Lippit and Rudd concessions. From the former, the Company deduced that it owned the unalienated lands, and long unchallenged practice confirmed it in its deduction. Its claim was, however, challenged at last, and in 1918 the Judicial Committee of the Privy Council ruled that these lands belonged to the Crown. The lands duly passed to the Rhodesian Government under the complicated system of payments and counter-payments that accompanied the grant of responsible government in 1923.*

The Company claimed the minerals under the Rudd concession. For a long time its claim went unchallenged, but since 1928 at all events the cry has been raised more

* Cmd. 1984 of 1925.

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and more confidently that the minerals were on the same footing as the land. Three successive mining Bills had to be withdrawn because the Company's rights were explicitly recognised therein, and, to crown all, in July, 1932, a prominent mineowner refused to pay royalties to the Company.

Mr. Moffat, yielding to unexpected pressure from many of his own supporters, therefore agreed to take legal advice on how best to bring this question before the Courts. The legal experts differed. Some said there was no case; others said the case was good, or at least arguable. The Company, for its part, stood to its guns and demanded a definite acknowledgment of its rights.

The Dominions Secretary decided the matter (though he did not end the controversy) by drawing attention to the so-called Devonshire Agreement which had covered the grant of responsible government. That agreement, he observed in November, 1932, "must be understood not merely as a recognition by the Crown of the Company's ownership of the minerals in Southern Rhodesia, but as imparting a promise not to call in question the rights recognised." And lest anyone should say, and there were many who did say promptly, that the undertaking merely estopped the Crown but left third parties free to take action, he insisted that this recognition was "an integral part" of the agreement under which responsible government had been given, and was "in accordance with the intention of all parties concerned."

Mr. Moffat, who personally had never questioned the Company's rights, faced the political facts. He offered to buy the Chartered mineral rights. His action was something of a gamble, as dealings in mineral rights are apt to be, but he might reasonably hope that with cheap money available the £100,000 drawn from royalties each year would meet the service of a loan of £2,000,000, which was the price agreed upon. The bargain was ratified at a stormy session of the Legislative Assembly in April-May, 1933. The

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Company has thus relinquished its hold upon the minerals as well as the lands of Southern Rhodesia. It still retains large farms and industries as well as the control of the railways; it is still, as the Reformers note, the biggest single capitalist in the country. But its main interests now lie north of the Zambesi. It proposes to shift its local headquarters to Lusaka, in Northern Rhodesia.

At this stage Mr. Moffat made way as Premier for Mr. George Mitchell, hitherto Minister of Mines and Agriculture. The new Premier's tenure of office was brief. A general election took place in September, 1933, a confused struggle of 78 candidates for 30 seats. In the event the Reform party came home with a short lead: 16 Reformers as against 9 Rhodesians and 5 Labourites. Mr. Mitchell resigned, and Mr. Huggins was sent for by the Governor, Sir Cecil Rodwell. Strong pressure was brought to bear from many quarters in favour of a National Cabinet on British lines, or at the very least for a coalition on the South African model, but the Reformers could not work with the Rhodesian party, and Labour, led by Mr. H. H. Davies, declined to work with the Reformers, even though both parties had in common the desire for considerable State action. Mr. Huggins therefore formed his own Ministry, with Mr. Gilchrist as second in command. Of the six Ministers, one is a newcomer to parliamentary life, and three others have sat in only one Parliament. On the other hand, they are keen and energetic.

The Reform Ministry have lost no time in getting into action. They have in their hands the report of a commission on the price of Crown lands appointed by their predecessors, which should fit in with their plans for a more rapid settlement of European areas; they are already hoping to attract tourists to the great nature reserve, which they have projected in the south-east corner of the colony, possibly contiguous to the Union's well-known Kruger Park, and they hope to enlist Portuguese co-operation in what should be an international undertaking;

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they are fulfilling one election promise by arranging for a referendum on State lotteries, which, if it is successful, will add to the problems of the Union Government, which finds the lotteries of Lorenzo Marques an expensive nuisance; above all, with the approval of all parties, they have given notice that they will terminate the present customs agreement with the Union in June, 1934. All Rhodesians hold that the agreement has been so whittled away by embargoes and quotas and the like that it is now hardly recognisable as the original scheme for a free interchange of products. At the same time they have asked for a conference, and if that cannot be held before June, 1934, for a continuation of the existing arrangements till a conclusion is reached. It is revision that they want and not a severance of amicable relations. The reply of the Pretoria Government has been cordial and reassuring.

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NEW ZEALAND

I. THE BUDGET

ON one point at any rate Mr. Coates was able to improve upon the example of both his immediate predecessors in the Finance Ministry when on November 9 he rose to deliver his first budget speech. He could be a little more cheerful than had been possible for them. In his opening sentence he said he was "glad to be able to note that export prices generally are on the up grade," and though there had been occasional reactions since the first improvement set in early in the year he regarded the prospects as brighter than at any time since the depression overtook New Zealand. The Minister's diagnosis was confirmed at Auckland on November 27, when the expectations based on the recent wool sales in Australia and London were exceeded at the first sale of the New Zealand season. At Christchurch on December 11 the hopes of growers were again reported to be fully realised. On December 20 Dunedin did better still with an exceptionally large sale, at which prices from 100 to 300 per cent. higher than those of last year were obtained, France and Germany being among the keenest competitors.

In his review of the Government's exchange policy the Minister did not attempt even an approximate estimate of its effects. He admitted that the rise in export prices which followed the raising of the rate had since been succeeded by a fall which did not leave them much above the level at which they originally stood, but the Government was satisfied to continue the policy.

As a result of all the efforts made (said the Minister) the gap between costs and prices has been narrowed considerably, but the government statistician's indices still show export prices about 16 per cent. below the 1914 level, while farm costs, which are more

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difficult to measure, are still 20 per cent. above that level. This is the position after taking the exchange adjustment into account, so it will be evident that the measure of assistance given by the raising of the rate must continue in the meantime.

In his estimates for the current year the Minister puts the receipts from taxation at £16,214,000, an increase of £609,000 over last year's receipts. The new taxes imposed in January to meet the cost of the exchange policy—the sales tax and the gold export duty—have worked out well during the first half of the year, and are expected to produce £1,712,000 and £124,000 respectively by the time it closes. With the proceeds of increased customs duties and some miscellaneous receipts, the aggregate is put at £1,954,000. But decreases under other headings make a set-off of £1,345,000, in which the heaviest and most significant item is the further drop of £857,000 in income tax, making a total decrease of £1,748,000 in two years, or over one third of the revenue. On the other side of the account the outstanding item is the one declared result of the exchange policy, "exchange on normal requirements," £1,790,000.

The Minister's estimates may be summarised as follows :

<i>Expenditure</i>					£
Debt services	..	..	..	..	10,445,000
Exchange on normal requirements	..	..	..	..	1,790,000
Transfer of motor taxation	..	..	..	..	1,179,000
Other permanent appropriations	..	..	..	..	340,000
Annual votes :—					
Social services	..	..	..	..	6,900,000
Other votes	..	..	..	..	3,597,000
Supplementary, say,	..	..	..	..	149,000
					<hr/>
					24,400,000
<i>Revenue</i>					£
Taxation	..	..	..	..	16,214,000
Interest receipts	..	..	..	..	2,551,000
Other receipts	1,541,000
From reserves	2,000,000
					<hr/>
					22,306,000
					<hr/>
Deficit					£2,094,000
					449

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The deficit is a matter for congratulation when compared with the Minister's estimate of £4,500,000 in his January statement, but it would have been nearly doubled if the reserves had not been again tapped for £2,000,000. By the consent of the British Government, the payments in respect of the funded debt are again to stand over.

Referring to the raising of the exchange rate and its effect in increasing government expenditure, measured in New Zealand currency, on external debt charges, the Finance Minister said that that had been anticipated when the rate was raised, and that full provision was made in the estimates to meet it. The amount required to meet interest and other payments in London was estimated at £7,250,000, while about £1,250,000 was needed for Australia. He pointed out that the latter payment would not call for additional expenditure, as the exchange costs would be recovered in remitting the money from London to Australia, where, as in New Zealand, sterling commands 25 per cent. premium; but he failed to note that, if New Zealand had not followed Australia's lead in this respect, there would have been a profit.

During the half-year ended on September 30, London funds purchased from the banks had amounted to £13,345,000, and, after deducting from this sum the £8,500,000 required for use in London and Australia, there was still £4,845,000 in hand as surplus sterling assets. Mr. Coates was at some pains to explain the size of the amount, which was far in excess of his estimate. Funds had been remitted to New Zealand in advance of export requirements, importers and others had been holding back from the purchase of exchange, and the position had been aggravated by unfounded rumours of a pending fall in the exchange rate. Hopes and fears and suspicions, which say more than they know, are the inevitable outcome of uncertainty, and the Minister eliminated the principal causes of uncertainty by the definite statements that "the exchange rate will be kept at the present level until at

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least the end of the present export season," and that "this does not mean that at the end of the season the rate will be reduced, or that it will not be increased." But in other respects, and especially on this question of the disposal of the surplus London assets, he still allowed ample room for uncertainty, uneasiness, speculation and contention.

The surplus sterling assets taken over under the guarantee arrangement with the banks will, says the Minister, "in no way embarrass the Government." They have been acquired in exchange for treasury bills issued to the banks in New Zealand, and as soon as the Reserve Bank opens its doors it will be possible to reverse the process and use the London funds to pay off the bills, adequate precautions being taken to protect the bank from liability.

Thus, (he continued) the net cost of the exchange indemnity agreement cannot be known until either all the London funds in question are sold by the Reserve Bank or stabilisation of the currency takes place. It would be premature at this stage to contemplate any loss arising; indeed, in certain circumstances the ultimate result might be a net gain. . . . In the meantime, the outlay in purchasing surplus sterling assets must be regarded as a suspense item outside the normal budget for the year.

This "suspense item" has naturally been likened to a sword of Damocles hanging over the budget. The sword may be the sword of Damocles, but the faith is surely that of Micawber. To incur a heavy liability and take no steps to meet it on the ground that, when at last payment has to be made, the sum may be smaller or larger than it is now is quite in the spirit of that brilliant financier. It was suggested by Mr. Downie Stewart that the real reason for this procedure was that the Finance Minister might well have £10,000,000 on his hands by the end of the financial year, unless imports increased rapidly at an early date, and that, if the cost of exchange were debited against the current year, the deficit instead of being £2,000,000 might be between £4,000,000 and £5,000,000, and the result a public outcry.

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In January 1933 Mr. Stewart gave his reasons for believing that the extra cost to the budget of raising the exchange rate from 10 to 25 per cent. would be about £3,800,000. In the budget debate on November 15, he said that he had reviewed the estimate in the light of the subsequent figures and found that it was under the mark. In the revised table below, the third item, "net interest charges on treasury bills, say £500,000," is explained by Mr. Stewart as follows: the budget shows that the extra interest on treasury bills for the year arising from the raising of the exchange rate will be £690,000, but whereas the rate charged on treasury bills in New Zealand is 5 per cent., the interest earned on the London funds is not much more than $\frac{1}{2}$ per cent., and the difference is fairly referable to the exchange. Mr. Stewart's revised estimate is as follows :—

	£
1. Extra cost of external debt charges	1,050,000
2. Cost of exchange on £4,845,000 surplus funds purchased till September	1,200,000
3. Net interest charges on treasury bills, say	500,000
4. Customs revenue made good by extra taxation ..	800,000
5. Exchange on funds, say £4,000,000, to be purchased between September and April	1,000,000
Total	£4,550,000

Mr. Stewart's concluding point was that whether he was right or not about the evils of artificial depreciation, or about the impropriety of carrying exchange as a suspense item, there could be no question about the absolute rule that artificial depreciation necessitated a balanced budget. Concluding the debate on November 21, Mr. Coates argued that the Government's principal obligation was to the primary industry which was the base of the country's prosperity; that the only alternative to the high exchange was guaranteed prices—the remedy of the Labour party; and that Mr. Stewart himself had no policy to suggest.

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In the ten months in which the high exchange had operated, (said Mr. Coates) the purchasing power of the country had increased by £7,000,000. . . . It was true that certain articles had increased by 15 per cent., and perhaps more, but they could count them almost on one hand. Barbed wire had increased 15 per cent., but no one could say the relief worker lived on barbed wire. . . . Retail prices had actually decreased since the currency was depreciated. . . . It could not be substantiated that New Zealand was going to lose £25 on every £100. It might be argued that New Zealand was just as entitled to establish an exchange equalisation fund as the United Kingdom.

II. THE BANK PROBLEM

THERE are six commercial banks doing business in New Zealand, of which only one has its head office directorate in New Zealand, and four of the other five are predominantly Australian institutions. Before the war the notes of all these banks were payable in gold, but on August 5, 1914, a Banking Amendment Act and a Proclamation issued under it made them legal tender—a provision which was from time to time extended and remains in force to-day. The Finance Minister points out, however, that, though the obvious intention of the early legislation was to establish the gold standard, the trading conditions of the country had in fact resulted in the adoption of a purely voluntary sterling exchange system.

The permanent statutory provisions are for the most part still suspended by war regulations, (he says) but such suspension had no real effect, as the provisions had always been practically inoperative.

This remarkable statement is made by Mr. Coates in a pamphlet entitled *Reserve Bank of New Zealand Proposal*, which he published in September, and he justifies it in regard both to the note issue and to the limitation of the credit structure. Of the former he says that the statutory provision was, in effect, that the note issue should not exceed three times the gold reserves, but that examination of the figures over a period of years shows that deposits

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and advances varied without any relation to notes in circulation, and, indeed, in a manner which would be quite inexplicable in a self-contained banking system.

The explanation, of course, (he continues) is that our banking system is not self-contained, in that the banks normally hold a large amount of funds in London. In fact, these London balances are the real regulative factor and the key to our whole banking system. In New Zealand there is no bullion market, no bill market or short-loan market, and generally no money market in the full sense of the term. The all-important work of our banks is financing our external trade, which per head is one of the highest, if not the highest, in the world. Furthermore, a very large part of our trade is with Great Britain, wherein is situated the premier international money market of the world. Under these circumstances, supported by the ties of Empire and the fact that this country has been borrowing steadily in Great Britain practically ever since these islands were brought under the British flag, the dominating portion of our banking business has centred in London.

The rise and fall of these London balances thus govern the deposits and advances that constitute the credit system of the Dominion. The Minister, however, recognises our obligations to the banks, which—at any rate till the end of 1930—made the system definite and complete by their policy of maintaining steady rates of exchange, unaffected by any but very exceptional trade disturbances. In illustration of the success of this policy, reference is made to the fact that, in spite of marked variations in the trade balance between 1907 and 1911, the exchange rates for telegraphic transfers, New Zealand on London, were kept at 17s. 6d. per cent. for at least ten years before 1914. The result was to keep the New Zealand pound approximately at parity with sterling. The opinion is expressed that the co-operation of governments and central banks may do much to reduce the damaging effects of the alternation of booms and slumps arising from the wide swings of British prices, but the Minister is satisfied that New Zealand has “no option but to accept the prices ruling in the British markets.”

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The chief characteristics of New Zealand's banking system are summarised by the Minister as follows :—

(1) The system is, in fact, and always has been, a sterling exchange standard.

(2) It has centred round an approximate fixed par of exchange between the British and the New Zealand pound.

(3) Our external trade is cleared through London, and the London balances of the banks are the chief factor in regulating the volume of credit in New Zealand.

(4) The banking habit is strongly developed in New Zealand, and notes are very subsidiary, being used for little beyond payment of wages, petty disbursements, and till-money.

(5) The legislative restrictions on the note issue have been quite inoperative, as the demand has always been considerably less than the maximum amount the banks were in a position to issue.

(6) The volume of credit has regulated the note issue, and not *vice versa*.

“Economic facts and the traditional exchange policy of the banks” are thus, in the Minister's opinion, the only real regulative factors of New Zealand's banking system, but he describes the control as not disinterested, having been “simply evolved as the system best suited for the purpose of carrying on commercial banking in the Dominion.” Seeing how well, on his own showing, the system has worked in the public interest, the acknowledgment is not too gracious, but in principle the case for the disinterested management of an institution specially created for the purpose is obviously, other things being equal, unanswerable. The establishment of such an institution, without any change in the sterling exchange system or in the present exchange rate, was declared by the Finance Minister to be the object of the proposed legislation.

The Reserve Bank Bill

The Reserve Bank of New Zealand Bill, which, on the Finance Minister's motion, was given its first reading on October 19, followed in its general scheme, but with a few vital alterations, the Bill circulated by his predecessor, Mr. Downie Stewart, on December 12, 1932. The primary duty of the Bank, as defined in it, is “to exercise control,

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within the limits of the powers conferred on it by this Act, over monetary circulation and credit in New Zealand." It is not disputed that both in its powers and in its limitations the constitution of the Bank conforms to the normal functions and conditions of a central bank. It is to have a monopoly of the note issue, it is to be "the bank of the banks" and of the Government, its competition with the other banks is to be severely limited, and so on. The only serious hostility to the second reading was shown by the Labour party, who, though "the establishment of a central bank, with control of note issue" was included in their own election programme, strongly objected to the measure of shareholders' control provided by the Bill as incompatible with "the full sovereignty of the people and parliament of New Zealand over the Dominion's credit resources." Their amendment affirming this faith was rejected by 43 votes to 28, and on the same day (October 31) the second reading was carried by the same majority, eight insurgent Coalitionists and Independents voting on each occasion with the Opposition, and Mr. Downie Stewart with the Government.

It was, however, on the relative proportions of State control and shareholder control that the controversy in committee chiefly turned. The 1932 Bill provided for the constitution of a reserve bank with a capital of £500,000 to be subscribed by the public of New Zealand in £5 shares, and with a contribution of £1,000,000 from the government free of interest. But whereas the 1932 Bill placed the control of the Bank in the hands of five directors, a governor and a deputy-governor, all (after the first appointments) being elected by the shareholders, Mr. Coates's Bill increased the number of directors to seven, of whom three were to be government nominees, while the Secretary of the Treasury was also to have a seat but no vote. The ultimate complete control by the shareholders was thus reduced to control by a six to three majority, while at the same time the initial term of government control was extended by two, or perhaps three, years. Mr. Coates had accepted Sir

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Otto Niemeyer's stipulation that "the Bank must be entirely free from both the actual fact and the fear of political influence," and had strongly approved the shareholder element as a guarantee of publicity, independence and free criticism, and these changes naturally caused some uneasiness. But for many uneasiness was changed to fear when the Minister was compelled to accept an amendment which took the appointment of the governor and deputy-governor from the shareholders and virtually transferred it to the government, thus giving its nominees a permanent majority.

It was the formation within the Coalition of a sort of State control cave or bloc, known in the lobbies as the "study circle," and its support by the Labour party—the one presumably with its eye on rural credits, the other inspired by its ideals of democracy and socialism—that forced the hands of the Government. The combination was considered strong enough to carry a complete State control motion, and Mr. Coates was glad to accept and move a compromise under which the governor and deputy-governor are to be appointed by the Government but on the recommendation of the directors. The arrangement is not suggestive of statesmanship or stability, and gives a very inauspicious start to an institution which, Sir Otto Niemeyer tells us, "will do more harm than good" if it cannot be kept entirely free from the fact or the fear of political interference.

But the most fundamental difference between the Bills of 1932 and 1933 relates to the price at which the gold of the trading banks should be taken over by the Reserve Bank. Clause 15 of the former Bill required the trading banks to hand over their gold coin and bullion to the Reserve Bank in exchange for its bank notes, but it also provided that if any trading bank claimed that the profits derived by the Reserve Bank from the sale of gold coin and bullion transferred to it by such bank should be credited to that bank, the question should be referred to arbitration. The first part of this clause was repeated in the 1933 Bill, but the

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provision for arbitration was omitted, and in its place a new sub-clause was inserted declaring that any profits derived by the Reserve Bank from the sale of gold coin and bullion transferred to it under this clause should be credited to the public account.

The importance attached to the question by the Finance Minister was indicated by the unusual course he took on the introduction of the Bill. When the House went into committee on October 19 to consider the Governor-General's message transmitting the draft of the Bill, the Minister took the opportunity to read a statement, designed, as he said, "to clarify the situation in respect to profits on gold reserves." This document, which ran to nearly 3,000 words, was about equally divided into two parts dealing with "profits on gold reserves" and "treatment of gold assets when a currency is devalued" respectively, and set out the case for the transfer of gold coin from the trading banks to the Reserve Bank at the mint par value, viz. £4 5s. per ounce of fine gold. On November 6, immediately after the holding of a protest meeting in the Wellington Town Hall, the Minister issued a summary of this statement, which appeared in the press on the following day.

The opinion that Mr. J. T. Grose, as chairman of the Associated Banks, had obtained from Sir Francis Bell, K.C., on the ownership of the banks' gold holdings had already been published on October 23.

The answer is, of course, (said Sir Francis) that in law and in fact, the gold is the absolute property of the banks, and that the State has not and never had any right or title to any part of it.

It is true that the export of gold coin is prohibited, and that therefore the banks cannot transport gold elsewhere. But the prohibition does not affect the title to the property, though it limits the market. . . . It seems that the Government does not challenge the property, since it proposes to pay a price for the property. That price is to be what the Government chooses to pay, not the actual value. It is to be depreciated by a government prohibition under which its market is limited, and is to be paid in currency depreciated as the result of government action. But further, if the body to which the gold is to be transferred is allowed to transport it, and a large profit results from the transfer, that profit is to be credited to the

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public account. No precedent can, I think, be found for that singular result.

In his abridged statement the Finance Minister conceded that the gold coin in the possession of the banks was "technically their property," but he denied that it was in the same legal category as goods which are their absolute property to dispose of as they please. The gold coin was subject to a charge in favour of the note issue, and it was contrary to the public interest that currency should be used as "a profit-making commodity." The Government agreed that the question must be decided from the standpoint of "fairness and good conscience." Two of the Finance Minister's fundamental points were stated as follows :—

Under the Banking Act, 1908, section 9, the holders of notes issued by the trading banks have the right to require payment of their notes in gold. The Government, in the public interest, in 1914 suspended this right. No interference with the property, or the legal rights, of the banks would be involved in removing this restriction. If that were done the banks would have to pay the note-holders in gold so far as the money in their possession would extend, and would have to import gold coin in order to meet the amount of the notes in excess of the value of the coin held by them. The existence of this power emphasises the fact that the value of each sovereign in the hands of the banks is not the world parity of gold as a marketable commodity, but is the value of the New Zealand bank note. That is what the Government proposes should be paid for it.

It is to be noted, too, that any gold holdings arise only as a result of government action. The effect of this action in New Zealand and elsewhere has been to vary, or to suspend altogether, the right of holders of notes issued by banks to convert those notes into gold. Meanwhile, government action, or action taken on the responsibility and if necessary at the cost of the State, has raised the value of gold in terms of currency.

The Minister also contended that if any persons were entitled to the accretion in value, measured in terms of gold as a commodity, they were the note-holders, whose rights the Government was taking over ; and that the realisation of any accretion to the value of gold coin would be due solely to the passing of the Bill and the setting up of the Reserve Bank.

In the reply, which was published on the same day, the spokesman of the Associated Banks described the Finance

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Minister's statement regarding the removal of the restriction on the convertibility of notes as "inconclusive in so far as the case is not fully explained."

The present proclamation would expire (he said) in the ordinary course in January 1935, but the Reserve Bank will come into operation before that date, and its notes will be legal tender; the banks will then be able to acquire from the Reserve Bank (by selling to, or discounting with, the Reserve Bank some of the treasury bills they hold—and will hold) a sufficient quantity of Reserve Bank notes to retire all their own notes as and when presented, without requiring gold for that purpose at all. The banks could then hold their gold until the proclamation expires, whereupon, in terms of the proclamation, the prohibition on the export of gold will also cease.

The Minister is also reported as having stated that it was the "Government action, or action taken on the responsibility, and if necessary at the cost, of the State" that "has raised the value of gold in terms of currency." The reply to this is that it was not the action of the New Zealand Government that increased the world price of gold, which is the result of world conditions. In the conversations with the banks it is the world price that has been named by the banks, not that price plus the depreciation of New Zealand currency. Without departing from the opinion that the gold coin and the value of it is theirs, the banks have offered to the Government to accept from the Reserve Bank sterling in London for their gold coin, that is £1 sterling for each sovereign. . . . On, say £4,500,000 of gold the Reserve Bank would win, say, £6,750,000 sterling, or £2,250,000 above the sterling paid to the banks for their gold, and under the Reserve Bank Bill this £2,250,000 would accrue to the Government, and its value in New Zealand currency on the present rates of exchange would be, say, £2,800,000.

The matter was keenly debated in the press, and in business circles there was strong sympathy with the banks and a general feeling that their offer of a settlement was a generous one. But even commercial opinion was slow to move, and the crisis had passed in the House of Representatives before it got to work. It was not a controversy in which the ordinary citizen could pretend to form an opinion, but the solution that probably commended itself to the fair play and common sense of most thinking men was rejected by the House with supreme contempt. The motion to restore the arbitration clause which had been included in last year's Bill was defeated on November 2 by a majority of more than ten to one—56 votes to 5.

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The whole of the Labour party voted in the majority and all but three of the Coalition. Mr. Downie Stewart, who was one of these three, explained that with the Cabinet's sanction he had provided in the 1932 Bill for the determination of the ownership of the gold by an independent tribunal, and that his object was "to avoid the possibility of an accusation of hard dealing being made against the Government." He agreed with the Minister of Finance that the Reserve Bank should carry with it the support, co-operation and goodwill of the trading banks, and considered that otherwise it would have a very difficult task. He admitted that the Minister had greatly strengthened the Government's case since last year, and in view of that he could see no reason for objecting to a tribunal, and considered it highly desirable that some friendly adjustment with the banks should be made. But no such adjustment was attempted. The House passed the third reading of the Bill without further amendment by 36 votes to 16 on November 2. In the Legislative Council no changes were made, the second reading being carried on November 17 by 13 votes to 4, and the third on the voices four days later.

Other reasons for regretting the decision of the Government and the legislature to eliminate the arbitration clause are that it has further shaken the hold of the Government upon the commercial community, which was already seriously weakened by much of the emergency legislation; that it has prejudiced the outlook for stable government after the next general election, and, if the reports that have reached us from England and Australia are representative, made an impression in both countries which will do our credit no good. That Mr. Coates should have been chiefly to blame is the more remarkable because in the recent case of the Southland Electric Power Board he earned the gratitude of the country by the alertness with which he recognised that the full enforcement of a perfectly just and legal claim may cost more than its worth, and took the necessary steps to clear the honour of the

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country from the stain with which it was threatened. These steps as previously reported* have now been completed by the passage of a Finance Bill which empowers the Minister to direct that payment of interest on local body loans raised in London shall be made in sterling. In moving the second reading on December 11 Mr. Coates said that he thought "it was obvious to everybody in New Zealand that although we had depreciated our own currency, we had not depreciated in any sense the currencies of other countries."

The puzzle is increased by the contrast between Mr. Coates's action in the present case and the canon which he himself applied to one episode in it. The motives of the Reserve Bank's directorate must, he said, be "free not only from the fact but also from the suspicion" of improper influences. Why is not the honour of New Zealand to be entitled to the same punctilious protection as that of its Reserve Bank? A year ago the Government decided to buy the gold of the trading banks and to pay for it a price to be settled by arbitration. Since then the country's indebtedness has greatly increased and its financial difficulties are more acute than ever. The Government now renews its decision to purchase the gold of the banks, but withdraws the offer of arbitration, elects to act as judge in its own cause and compels the banks to accept a price that they regard as spoliation. If in these circumstances the people of other countries suspect that we have been compelled by pecuniary pressure to drive an unjust bargain, they will simply be regarding us as we, in similar circumstances, should have regarded them. An extension to the country's honour of the principle which Mr. Coates laid down for the protection of its Reserve Bank would have freed us "not only from the fact but from the suspicion" of impropriety.

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December 23, 1933.

* See THE ROUND TABLE, No. 93, December 1933, pp. 209-216.

